

FINANCING REGIONAL DEVELOPMENT AND COMPETITIVENESS: PROBLEMS AND CHALLENGES AT MACRO AND MICRO LEVEL IN BULGARIA

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Abstract: *The paper discusses the contemporary regional development of Bulgaria and regional financing by different national sources and European funds. The compliance with the EU requirements for attaining targeted results in specifically programmed priority areas is revealed as a driving force for improving the financial governance of regional development. The main tasks are to analyse the problems and prospects of the different types of regional development financing, their interdependence and overall impact on the regional production structures and social development. The issues of the efficiency and effectiveness of the decentralisation of public finances are analysed within the framework of the goals of sustainable regional development.*

By revealing the mechanisms and instruments of public financing the regional development some conclusions are made for the enhancement of fiscal coordination between the municipalities' and central Government authorities. The implementation of additional measures for more strict fiscal discipline at local level is considered with regard to improving the solvency of the municipalities' budgets and enhancing the capacity of the municipalities to manage their debts' repayment problems. Overcoming the shortage of municipalities' funding commitments and difficulties of meeting the obligations to serve due costs is discussed as an opportunity to improve the local finances. The role of public governance is revealed in order to consider the problems and future prospects for financing regional development.

The methodology of the study involves the comparative analysis of the macro and micro financing of regional development and institutional and legal analysis of forms and schemes of public financing. In conclusion some problems and prospects are drawn for the public governance of Bulgaria in support of financing regional development.

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Introduction

The financing of regional development in Bulgaria has undergone profound changes in the last two decades with the corresponding transformations in the political system and reforms in the design and implementation of the Central Government budget policy. Having the experience of the territorial administrative complexes in Bulgaria under the former socialist centralized planning system the introduction of a new system of administrative and economic governance of the regional development since 1990 has passed through a long process of transformation of former centralized forms of governance and introduction of newly adopted approaches to central and local governance. The transition process of regional development has had difficulties in overcoming the legacies of the past as regards overcentralisation and deficiencies of local legal powers of self-governance and public accountability.

The democratization of the economic governance at regional level has been combined with the still ongoing process of financial decentralization of the local authorities' budgets and financial management. Thus the adoption of new principles and norms of political democracy and economic liberalization as well as the overall democratisation of economic governance and public administration in the transition to market oriented economy has influenced greatly the process of financing the regional development.

Since the beginning of the transition in the 90s the Europeanisation of the regional development policy in Bulgaria has strongly contributed to raising the importance of new factors and institutions for the financing of regional development. Two main aspects of the Europeanisation of the financing of regional development have greatly contributed to the present state of the implementation of the regional development goals in Bulgaria:

As a member of the Council of Europe since 1992 Bulgaria has introduced important changes in its legislation and institutional capacity by improving local democracy and local municipalities' governance.¹ Thus due importance has been given to the role of local self

¹ Bulgaria has signed and ratified the European Charter of Local Self-Government (ETS No. 122) in October 1994 and ratified it on 10 May 1995, declaring itself bound by all the provisions of the Charter with the exception of Article 7, paragraph 2. The Treaty came into force in respect of Bulgaria on October 1, 1995 and it has contributed to the improvement of the overall regional system of public administration and economic governance by recognition of democratic principles and values and process of on-going improvement of the public policies at regional level.

government in favour of regional development. At the start of transition to market economy the implementation of the recommendations of the Congress of Local and Authorities at the Council of Europe has contributed significantly to the reforms in the economic governance at municipality level carried out in Bulgaria.¹ Due consideration has been given to the issues of the budgetary restrictions on local authority autonomy and the persistent need to improve the system of Government budget transfers as well as to make possible for local municipalities to improve their own revenues as contributing to regional development. The implementation of the local self-government democracy has been improved by introducing better clarity in the division between Central Government's authorities' own powers on one hand, and the delegated powers to the municipalities and their own self-government governance, on the other hand.

Since joining the EU in 2007 Bulgaria has developed further the interdependence between the Central government and the municipalities. The implementation of the EU policies in favour of regional development has stimulated building the institutional and legal framework which contributes to the improvement of the national strategic programming and planning. In the process of the absorption of the EU funds the public and private sector in Bulgaria have gained good experience to make use of proper public finances 'management of this new source of funding and investments in regional development. During the 2007-2014 EU multiannual programming period Bulgaria has made great progress in the compliance with the EU Cohesion policy's requirements for achieving a new set of priorities for regional development. Institutional and governance reforms have been undertaken to promote space neutral and place-bound development policy intervention by public and private funds.

Local governance has been and still remains an area of reforms in order to improve local democracy in favour of increasing the sources of financing the regional development. The great regional disparities among different regions in the country have made necessary to improve the allocative function of the public finances in order to cope with problems of imbalances of public goods and services in less developed regions.

The process of accession of Bulgaria to the EU has allowed the implementation of new goals of regional development and made available new sources of financing. The progress of the regional development in Bulgaria has become of crucial importance for the overall transformation to market economy. European regional support has grown in parallel with the progress of adjustment of the Bulgarian economy. The most important role of the EU funds has been their involvement in achieving greater economic and

¹ Local and regional self-government in the Republic of Bulgaria was the subject of a monitoring report and the Congress Recommendation 45 (1998).

socia cohesion aimed at three levels: regional, national and European. In times of growing challenges of providing jobs and incomes, encountering the problems of the demographic crisis because of the aging population and greater labour mobility in and outside the country the EU policy of cohesion has become instrumental for better public regional governance in Bulgaria.

Therefore the accession of Bulgaria to the EU has proceeded with efforts to achieve compliance with the EU policies in two aspects as regards regional financing. On one hand Bulgaria's public finances and the financial management and control system in the public sector have been considerably reformed to serve better public funds' utilisation for regional development. On the other hand, the introduction of the decentralized system of governance of European funds has been an indispensable prerequisite for the absorption of the EU funds. The majority of the developments under EU funds have been earmarked for the Objective 1 regions, i.e. regions whose GDP per capita is below the 75% threshold of the EU average. Bulgaria's regions are much in need of overcoming disparities as regards all aspects of the needed cohesion within regions at national and EU level. The undertaken reforms of the public finances of Bulgaria within the EU framework requirements since 2010 serve better the need of creating adequate preparedness to make efficient use of own public funds and EU funds as well.

The structure of the study comprises the following parts:

Part I discusses the strategic regional planning and programming in Bulgaria as a basis for its financing and as improved institutional capacity developed within the framework of the EU requirements for compliance. Due attention is paid to the public accountability's prerequisites of implementation of the Bulgarian Government budget finance, EU funds and other funds and financial instruments to support regional development.

Part II discusses the concept of compliance with the EU requirements and its high relevance for the financing of regional development. The issues of compliance with the EU requirements as regards regional development are revealed with regard to the attainment of adequate functioning of the public financial and management control system and the efficiency of public and private investments.

Part III presents the main problems of the Government budget policy and the process of the financial decentralization of local authorities' budgets. The purpose is to present the achievements and problems of the public funding of regional development.

Part IV discusses the problems and prospects of public governance of financing for regional development with regard to enhancing the institutional capacity to make more efficient use of own public funds, the EU funds in the new programming period (2014-2020) in order to encourage investments and growth.

I. Strategic planning and programming to support regional development in Bulgaria: the impact of the European integration of Bulgaria

The regional programming and planning in Bulgaria has become the basis of the public governance and financing of regional development with profound social, economic and environmental consequences set to last for many years. The main objective of regional development as well as the territorial levels at which it is accomplished in Bulgaria and the basic tools of its governance are defined in the Constitution of the Republic of Bulgaria (CRB, prom.-SG No 56 / 13.07.1991). The National Assembly is responsible for the adoption of laws for regional development and the overall Parliamentary control and surveillance of the Government policy in accomplishment of the public finances for regional development. The division of the territory of municipalities and districts which are administrative territorial units (ATU) is a prerequisite for regional planning and regional policy. The district is defined as the ATU conduct regional policy for the implementation of local government responsibilities and ensures consistency between national and local interests (Article 142 of the Constitution).

The contemporary conceptualization of the national regional strategic programming and planning serves the need to bridge the gap between the local and the national level of planning. Its main goals are to take into account the scarcity of available resources, to identify their spatial distribution with regard to socio-economic needs and national socio-economic development prospects and to undertake the optimization of public expenditures by setting right priorities for the economic, social, environmental and spatial cohesion.

The national policy for regional development by which the strategy for regional development is accomplished is governed by the Bulgarian Government¹. As seen on Chart 1 the main ministries bearing the responsibilities as national public institutions for regional development and primary state budget spenders are linked together by their accountability to the Central Government. The Ministry of Finance is responsible for the preparation and adoption of the Republican State budget each year and its task is to contribute for taking the appropriate decisions in favour of Government budget funding for regional development and presenting each year the draft budget to be adopted by the National assembly.

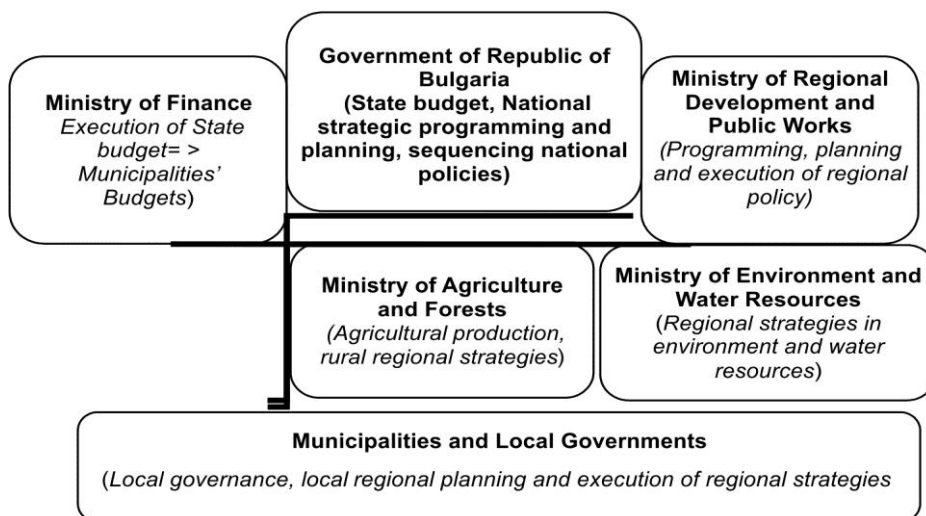
In order to organize the implementation of long-term regional programmes (Article 44, paragraph 1, item 6 of the Law on Local Governance and Local Administration) for the public governance it is important to rely upon:1) the legal competences of the *municipal*

¹ Law on Regional Development. Pursuant to Article 8, paragraph 1 of the Law.

councils (which define strategies for municipal development, forecasts, programmes and plans and are democratically elected) ; 2) the legal powers of the *mayors* of municipalities (according to Article 20 and Article 21, paragraph 1 of the Law on Local Self Governance and Local Administration (LSGLAA, Prom. SG is.77/17.09.1991).

The progress of regional programming and planning has been characterized by the deepening of the coordination and interdependence of regional planning at local and national level. Since 2014 the adoption of the Law on Public finances and the introduced amendments to the Law in the spring of 2016 have put on the agenda the coordination of medium term fiscal planning. The purpose is to introduce the medium-term budget forecast and to implement it as a real instrument for medium-term forecasting and planning through observance of strict fiscal rules by Central Government and local authorities. The provisions of the Law regulate the preparation by the Central government and local authorities of the medium-term budget forecast. The aim is to introduce a multiannual budgetary perspective based on multiannual fiscal planning on the basis of better co-ordination of state budget and local municipalities' budgets. This is a further step in the support of the financing of regional development based on improved mechanisms of coordination across sectors of the Central Government and the local authorities for introducing three-year budget planning with a two-step annual budgetary procedure.

Chart 1. Public Institutions and their Role in Financing Regional Development



Source: Author's presentation on the basis of the legal framework for the governance of regional development in Bulgaria.

The *Regional Development Plans* are developed for regions of NUTS level 2. They are adopted on the basis of analysis of the opportunities and needs of local development within the respective region, in accordance with the provisions of the National Strategy on Regional Development and other structural policies. The Regional Development Plan of each region contains: objectives and priorities for development of the municipalities in this region over medium term period, indicators for monitoring and evaluation of the accomplished tasks as well as the necessary actions to monitor, evaluate and update the actions' plans to implement the regional strategy. It is important to undertake the necessary actions to co-ordinate all stakeholders' in regional development and provide adequate information and publicity for the regional development, etc.

According to the Regional Development Act (RDA) and the Implementing Regulations of the Law on Regional Development (PPZRR) financial issues are to be settled both at Central Governmental and local level with regard to regional development on the basis of Planning, programming, management, resource provision, monitoring, control and evaluation of the implementation of strategies, designing and adopting plans and programmes for the implementation of state policy for regional development. In undertaking the policy measures two main aspects have been targets of reforms in the regional development governance in Bulgaria:

- The implementation of financial management, monitoring and financial control of plans and programmes for spatial and territorial development at national, regional, district and municipal level.
- Impact assessment and sequencing of public finance policy, national regional policy and EU Cohesion and other relevant policies with sectoral policies in order to increase the synergy of the undertaken measures for regional development.

The Guidelines and policy *principles for spatial development* are defined by the Cabinet of the Minister of Regional Development, taking into account the strategic guidelines, goals and principles of EU policy. Concepts and schemes for spatial development are the objectives of government policy for a medium term period at the appropriate territorial level. This provides links between regional policy and policy planning at national level.

As the programming of assistance from the EU funds according to the EU requirements is done *at the levels of NUTS 2 and NUTS 3*, it is logical that the planning of their development in the medium term may follow the same territorial scope. Thus the projects proposed for funding can be better motivated. For level 2 regions (NUTS 2) the Government has to adopt *regional development plans* (Article 11, paragraph 1 of the RDA and Article 14, paragraph 1 of PPZRR) in accordance with the Bulgaria's National Strategy for Regional Development, sectoral priorities and investment intentions and

structural policies for the area. They must be consistent with *the regional schemes for spatial development of the areas (districts) of level 2*.

Regional development plans are adopted by the Council of Ministers, on the basis of a proposal of the Minister of Regional Development, with individual decisions the Council of Ministers *for each area of level 2* (art. 18, para 1 of PPZRR). These should reflect any change in the predictions, given the changing boundaries of NUTS 2 as a result of the change in regional schemes for spatial development of the region. Boundaries of the NUTS 3 coincide with the boundaries of administrative-territorial units (Article 3, Item 1 of Regulation 1059/2003 of the EC), for which is developed and adopted regional strategy for Development. Concerning the regulation of the "matching range" of statistical regions of NUTS level 2 and NUTS 1 region borders for regional development planning, according to the RDA, Bulgaria complies with EU regulations governing the conditions for programming assistance from the Structural and Cohesion Fund for regions of the Member States. The concept of the role of the territorial levels 1, 2 and 3 has also been observed for the implementation of Operational programmes for the EU funds.

The Regional Development Plan is subject to medium-term upgrading because of the following reasons:

- When substantial changes occur in the economic and social conditions in the area of Level 2, as these may cause changes in the administrative and financial management of the area;
- As a follow-up procedure of changes in the related national legislation or EU legislation, for example there has been a change in the requirements for the formation of regions of different levels according to NUTS.

The Regional Development Plan adopted for 2014-2020 has been upgraded in 2016 to reflect the rapidly changing socio-economic and business environment. Its implementation is targeted to achieve the set of objectives and priority goals of the National Strategy for Regional Development 2012-2020 for the socio-economic, spatial, environmental and infrastructure development of the regions.

II. The Concept of Compliance with the EU requirements and its relevance for the financing of regional development

The impact of the EU law on the Europeanisation of the regional policy has been considerable since the pre-accession stage of Bulgaria's preparation to join the EU. The most important steps undertaken to achieve compatibility between the management model for national public resources and institutional functions required for the

management of EU Funds have been carried out in 2003-2006. The introduction of the new system of financial management and control in the public sector since 2006 has constituted a profound reform of decentralization of the former system of public financial management and control. In the public sector the internal audit and control as well as financial inspection have been introduced as instrumental for the improving of the public accountability of the management of the public finances.

Bulgaria has undertaken to treat the management of its own public money on equal grounds with the financial management and control of the EU funds. Since joining the EU in 2007 Bulgaria has continued its compliance with the EU law by: i) institution building involving new institutions established to manage the public finances and the EU funds, including the implementation of Operational Programmes; ii) implementing the requirements for new administrative system, public procurement procedures and legislation for other ways of management of public money as concessions and public-private partnerships; and (iii) undertaking additional domestic reforms for the regional policy management within the existing in the EU scope of the free choice of national policy options.

In comparative analysis with other new EU member states Bulgaria's pre-accession reforms of the financial management and control system of public finance have been carried out under PHARE/Twinning projects and the due supervision of the DG Budget of the European commission. These legal changes may be characterised as introducing completely new institutions and approaches of regional governance. In this way Bulgaria belongs to the very few new EU member States that expanded best practice approaches from pre-accession to the public management systems at large (Verheijen 2007). However, the newly introduced in 2006 system of public financial management and control has not been equipped fully enough to fight against irregularities and fraud. This may explain the cases of suspension of some EU funds to Bulgaria in 2007-2013 multi-annual programming period.

Recent studies for the new EU member countries have also found positive results from the pre-accession reforms but raising some problems about the follow-up development of sustainable administrative capacity and implementation performance in 2007-13 (Bachtler et al, 2013). In the case of Bulgaria the durability of the reforms in the public financial management has been provided by the institutional progress in implementing the EU funds and the further transposition of the EU law in the area of public finances and regional development. As an example may serve the good institutional capacity which has made possible to carry out the Operational Programme "Regional Development" 2007-2013 (OPRD). These sustainable improvements of the administrative capacity of the municipalities has contributed to the practical implementation of the National Strategic

Reference Framework in the main areas for which Bulgaria has received funding by the European Regional Development Fund.

Bulgaria has been implementing its National Strategy for Regional Development for the period 2012-2022 by undertaking active Government policies especially for the *infrastructure development and improving the connectivity of regions* as well as taking into consideration the increased level of concentration of economic activities and population to several main cities and regions as poles of growth in contrast to the diminishing of socio-economic activities in several less developed regions. By involvement of the Government and business sector due attention is paid to the deep intraregional differentiation and imbalances among the municipalities. The public governance of Bulgaria's regional development serves the main purpose to improve the focus of the regional development goals and their proper implementation on the principles of subsidiarity and solidarity.

With regard to this *the municipalities* (whose total number amounts to 265) play leading role in the implementation of regional policy in Bulgaria. There are deep economic differences among them as regards the number of inhabitants, the level of economic activities and employment involved, the level of public services per inhabitant, the level of income to be taxed by Government and local taxes.

Under the circumstances of the demographic crisis these differences have tended to deepen due to the labour migration to the bigger cities as well as to other EU member states and third countries (Totev, 2011). The rising differences have become of more important significance to be considered in order to maintain a justful and even approach with regard to the funding of the municipalities with public money for the activities which the Government delegates to them. Justification of the differentiation among the municipalities in providing public goods by budget transfers from the Government has increased its importance as an indispensable part of the good regional governance. The measures of regional policy in Bulgaria are targeted at the level of all the 265 municipalities but their disparities present serious problems to the public finances. A number of less developed municipalities experience financial difficulties to provide due public services to their citizens and their indebtedness makes necessary their financial recovery by the central government. This raises three major issues:

The first problem relates to the great differences in the available capacity of individual communities in the bigger and smaller municipalities to make use of public services. As a result a much higher concentration of Government funded public services and activities is observed primarily in the major municipalities.

The second problem is related to insufficient capacity of smaller municipalities to raise own revenues, making it impossible to implement regional structural measures with local

revenues without the Budget transfers from the Government. On average, a municipality in the country has about 30 thousand inhabitants. This potential is fully insufficient to conduct regional policy to EU standards. 78 out of 265 Bulgarian municipalities are small and threatened by permanent peripheral status. As the process of depopulation in these municipalities continues due to the lack of employment opportunities (with the follow up trends of reducing the number of schoolchildren and of the employed in the schools and closure of some of the schools), the problems of less advanced regions become an area of other social policies besides the regional policy. But the overall consideration of the status of these regions falls within the competences of the public financial management of the municipalities.

The third problem relates to the impact of Government's fiscal concentration in the country. It makes difficult the co-financing of projects because of the limited financial resources of some municipalities. Thus the Government has to provide the solutions for the co-financing of the EU-funded projects which present public interest at municipalities' level.

The necessity to improve the municipalities' capacities to apply for and to implement EU funds has stimulated further closer co-operation of Central Government institutions and local authorities. The projects financed by EU funds require 20-30% co-funding. The current investment opportunities of the municipalities in the prevailing cases are far lower. In order to respond to the challenges facing municipalities in making use of EU structural funds the problem of increasing their investment capacity and powers of municipalities to conduct local investment policy has been given due consideration. The investment capacity of the municipalities' has been considered as possible to be increased in several ways:

- *by consolidation of all sources of investment resources for municipalities. Receiving local authority planning grants from line ministries, for local public hospitals, roads, funds to repair schools, etc. as well as attracting private capital for public private partnerships present some of the examples of good practices.*
- *by defining the criteria for evaluation of the total amount of the target subsidy for capital investment expenditures. The target subsidy for capital expenditures could strongly increase its size if the strategic programming and planning may justify this need.*
- *by raising higher the level of the own revenues of municipalities and their ability to borrow credit money and to issue municipalities' bonds.*

In most of the old EU Member States the municipalities and regional authorities allocate funds almost as much as by centralized Government budget. In Bulgaria the local

authorities (municipalities) are spending two and a half times less money than the budget transfers through centralized government budget. Studies have shown that the municipalities under 10 thousand people (their total number is 103 municipalities in the country) are really unable to conduct effective local policy of development without the Government transfers to the municipalities' budgets. (Stanev, 2006).

Thus the decentralization is a means to improve the efficiency of public governance but it does need coordination and support of the Central Government. This may explain the resort to a differentiated approach by the Bulgarian Government to the less developed municipalities and regions.

Following the European good practices the decentralization has been at the essence of the allocation of Government powers, responsibilities and resources to local public institutions to provide efficient and quality public services delivery. But fiscal decentralization in the interests of local communities doesn't mean transferring powers for decision making responsibilities to provide public services funded by public money irrespective of the actual disparities among the municipalities.

Reducing the disparities instead of letting deepening the gap between developed and disadvantaged regions proves of vital significance for the practical implementation of public governance, Financial decentralization is meant to accomplish the proper regional governance and to take the local responsibilities for better maintenance of public services and provision of public goods as local infrastructure, education, healthcare, security and social services, etc. (Ivanov, 2006).

The problem of the insufficiency of own revenues of the municipalities has been mitigated somewhat by the credits of the Fund for Local Authorities and Governments (FLAG). But these are loans and they must be repayed by the municipalities' budgets as due debt.

The less developed municipalities have often encountered debt problems. The Law of Municipalities' debt management has created the prerequisites for problems' solutions of indebted municipalities that have difficulties to manage the provision of some public services as well as to service their debts.

In the post crisis period since 2014 solving the problems of local governments in poorer regions has become a priority with regard to the implementation of the stricter EU legal framework for fiscal discipline. By amendments of the Law of Public finances since 2015 the legislative procedures for financial revival and consolidation of highly indebted municipalities have been introduced.

The indebted municipalities are to be put under the strict monitoring of the Ministry of Finance for the execution of their budgets and there is a possibility to be provided by

interest-free state loan, if necessary. The new amendments to the Law of Public Finances create the legal prerequisite that the State Budget upon decision of the Government to provide additional grant to the municipality which while being in a financial recovery programme not only services its debt but improves its budget position evaluated on the basis of 5 criteria including:

1. Achieved degree of reduction of due arrears;
2. Achieved primary budget surplus for the last reporting period of the municipality, which is the positive difference between revenues and aid donations, spending and budgetary relations, without considering the cost of servicing the debt of the municipality;
3. Sustainable growth of own municipal revenues;
4. Increased collection of own revenues;
5. Reduction of administrative costs.

The targets for financial recovery of the municipalities in annual and medium term are to be set by local authorities with the approval of the Ministry of Finance on the basis of an objective analysis of the key financial indicators in order to introduce possible consolidation measures in managing local finances initiated by the municipal council and after public consultation in the interest of the local community.

The procedure for financial recovery may be applied by municipalities which are at risk of availability of unsecured debt, which in turn has caused the increase in the deficit on their budgets.

The new legislation for the financial recovery of the municipalities with financial difficulties is an expression of efforts to limit the negative effects on the budgetary position of the municipality with lower own revenues and to provide public services to the local community by offering opportunities to implement additional measures to serve due debts. This is targeted to diminishing disparities among the municipalities, especially those which are at disadvantages because of labour migration to the bigger cities.

The adoption of legal procedures for financial revival of municipalities burdened by unserviced debts as well as setting more strict requirements to local authorities in cases of attracting new credits present important steps to fiscal consolidation of public finances at local level. By regarding the fiscal coordination of Central government with local government as crucial for the public fiscal discipline, the new provisions of the Law of Public Finances contribute to better governing of the municipal debt and guarantees, the revenues and expenditures of the entities controlled by the municipality as well as the expected impact on municipal finance indicators.

The compliance with the EU law concerns all stakeholders in the regional development of Bulgaria. It is fundamental for the consolidation of public sector accountability and improving the institutional capacity at all levels of governance and implementation of Bulgaria's National Strategy. Other aspects of improvement of the legal framework for regional development financing include also the following areas:

- the adoption of entirely new law regulating the role of local governments in the management and the supervision of the European funds within the system of Bulgaria's public finances;
- adoption of legislative amendments in the field of public procurement, such that will bring maximum transparency and effective spending of the public funds by municipal contractors and assignees.

In conclusion, the compliance with the EU law may be considered as a process consisting of four main parts:

First, creating the publicly acknowledged incentive framework for the national state administration and local authorities as well as the private sector to comply with EU regulations. Due to the implementation of this framework for regional development better experience and understanding on what drives better compliance decisions have been achieved by the responsible authorities with regard to reducing the cost and increasing the speed of compliance with the EU law. For instance the Law of Public Finance previews active consultative role of the National Association of the municipalities as a stake holder of prudential public financial governance.

Second, improving the capacity to analyse regulators' actions from the perspective of economic and political economy consequences and to formulate adequately the types of regulatory approaches. Thus the issues of impact assessment of the new legislation becomes important to assess the outcomes for the rent-seeking behaviour, the role of personnel management and institutional capacity-building in order to encourage the Government and local authorities administration to carry out their job effectively.

Third, making use of Bulgaria's options of free choice to achieve efficiency of the EU law compliance by the application of both the EU and national legislation and good practices as regards:

1. The adoption of proper regional strategy
2. Compliance monitoring (inspections)
3. Enforcement actions (or non-compliance response).

The problem Bulgaria faces now is how to allocate the Government's budget money and EU funds properly with regard to compliance monitoring (inspections) and enforcement (sanctions) and what kind of enforcement measures are good enough to be applied and according to which rules. It is dependent on the specific situation in each municipality for the authorities to decide to what extent "deregulatory strategies" may be pursued. The aim is to evaluate better the costs of monitoring and enforcement. These problems have been experienced already by other member states as well and further improvement of the institution-building is to be considered instrumental to cope with the challenges (Bache, 2010).

III. The role of the Government budget policy for financing regional development

The Consolidated fiscal program of the Bulgarian Government is deeply involved with the municipalities' finance and this presents an important part of the pursued strategy of the Government to the regional development. The Government interacts with the 265 municipalities on the territory of the Republic of Bulgaria for the *preparation and implementation of local budgets*. The Government budget annually is approved by the National Assembly and its implementation serves the needs of regional development as well.

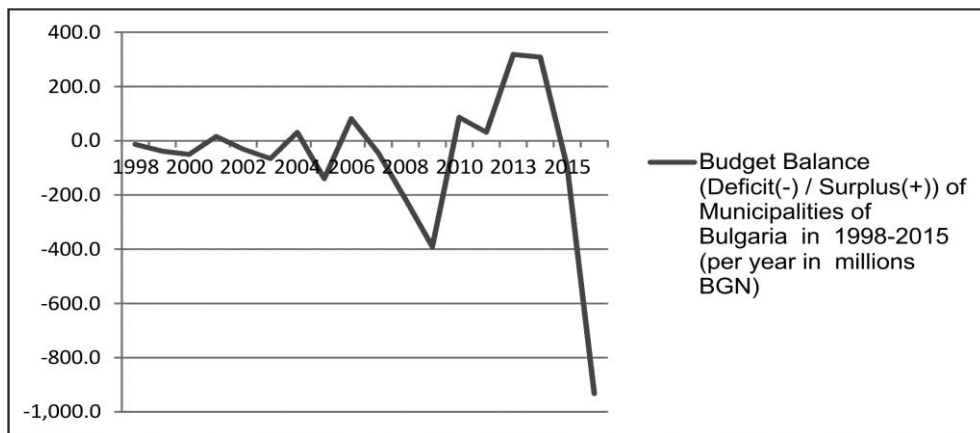
Bulgaria has embarked on fiscal decentralization of municipalities since January 2003. However the municipalities' budgets have been very much dependent on the grants (subsidies) from the State budget during the period 1998-2015. The budget situation of the municipalities remains a priority of the Republican State budget with all budget procedures concerned.

The local budgets of the municipalities have been maintained in general with a good fiscal discipline for the preaccession period and at the beginning of Bulgaria's entry in the EU since 2007. The financial situation of the municipalities has worsened since 2008 as a consequence of the Global crisis and economic slowdown. As seen in Graph 1 the municipalities' budgets have run into a higher deficit by 2008-2010. Following duration of nearly 3 years' improvement by reaching a certain surplus in 2013 again, the total budget balance of the municipalities has entered again into higher deficit for 2014-2015.

The main reason for the higher deficit of the budget of the municipalities as a whole since 2014 may be considered the reduced inflows of own municipalities' budget revenues due to the prolonged slowdown of economic growth of Bulgaria since 2008 as a result of the impact of the Global economic crisis and the Euro area sovereign crisis.

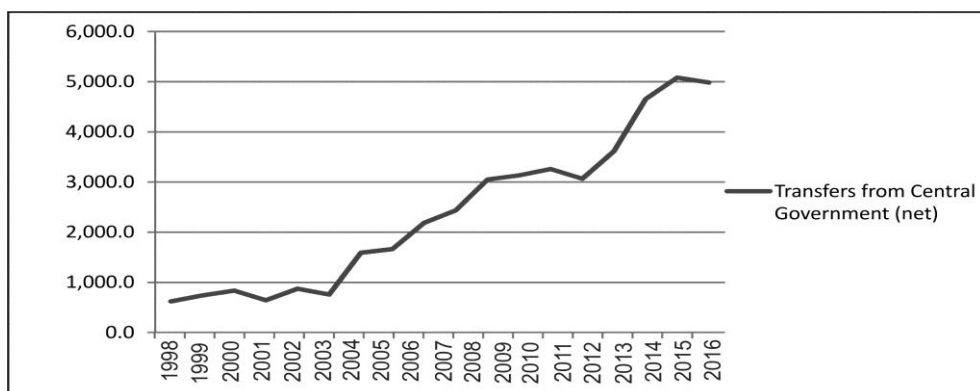
Due to the need to overcome the crisis consequences from mid-2007 onwards the net transfers from the State (Republican) budget of Bulgaria to the budgets of the municipalities have grown to reach a level of newly 3 billion BGN by 2008 as seen from Graph.2. These central government transfers (grants and subsidies) have been maintained at this level by 2013. For 2014-2015 the net Government transfers to the municipalities have been raised again reaching 5 billion BGN by 2015.

Graph 1. Budget Balance (Deficit (-) / Surplus(+)) of the Municipalities in Bulgaria in 1998-2015 (per year in millions BGN)



Source: National Statistical Institute, *Municipalities' finances*, 2015.

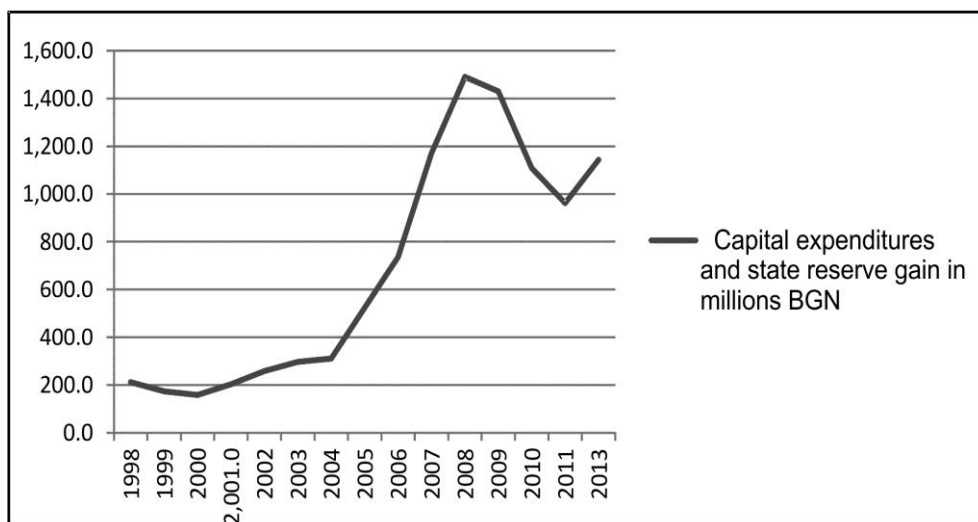
Graph 2. Central Government transfers (net) to the Municipalities in Bulgaria in 1998-2015 (per year in millions BGN)



Source: National Statistical Institute, *Municipalities' finances*, 2015

In this period providing support to the municipalities for implementation of the EU funded projects has made necessary to increase the transfers from the Central government budget as grants or loans available to make possible the projects under different Operational Programmes by 2013-2014. Due to this the municipalities have been in the position to increase to some extent their capital expenditures in 2004-2008 and once again since 2013 (Graph.3).

Graph 3. Capital expenditures and state reserves gain of the municipalities in Bulgaria in 1998-2013 (per year in millions BGN)

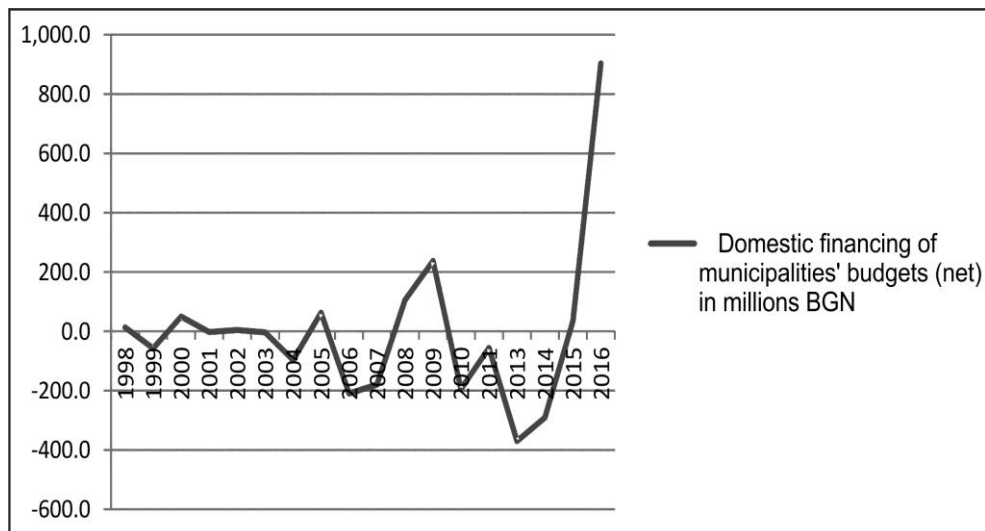


Source: National Statistical Institute, *Municipalities' finances*, 2015.

This has made possible the progress in the high road construction, social services, investments in healthcare and education infrastructure and other public services in spite of the unfavourable economic environment and the overall stagnation of the investment in Bulgaria for the period 2007-2015 as seen in Graph.9.

The *domestic net financing of the municipalities' budgets* (from Central government grants and subsidies, own revenues and other domestic sources including revenues from privatisation and loans from financial institutions) has followed rather uneven trend. As seen in Graph.4 there have been sharp reductions in the domestic financial flows to municipalities' budgets for 2007-2008, as well as in 2011 and 2014 due to the ongoing slow recovery of growth in Bulgaria due to impact of the Global crisis and the recession in the EU.

Graph 4. Total Domestic Financing (net) of Municipalities' Budgets in Bulgaria in 1998-2015 (per year in millions BGN)



Source: National Statistical Institute, *Municipalities' finances, 2015*.

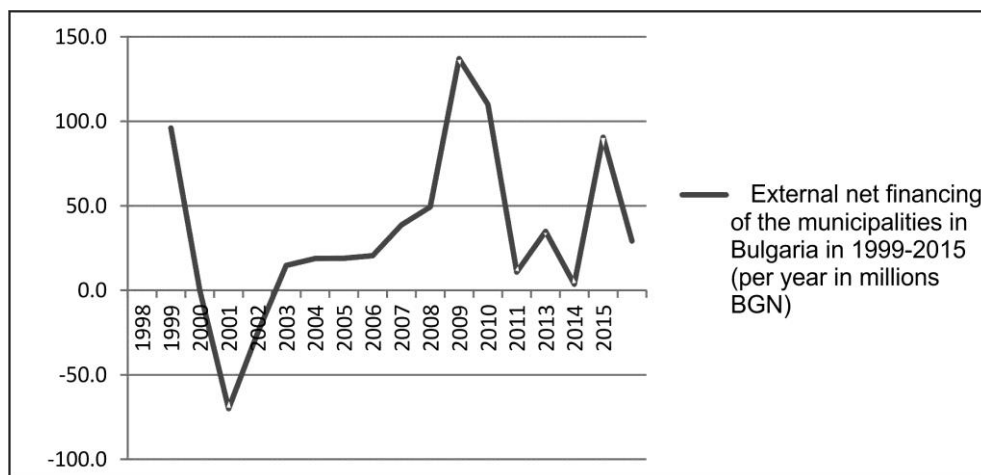
The negative influence of these fluctuations has affected most strongly the municipalities in the less developed and peripheral regions in Bulgaria such as the Northern Western and Northern Eastern regions which have a high level of unemployment and low investment rate.

The financing of the municipalities budgets (Graph.5) involves also *external sources* in the form of revenues from local taxes and fees on foreign investments, foreign investments in public private partnerships as well as external money inflows on the basis of privatisation or emission of municipalities' eurobonds and credits from financial institutions. The latter are due to be repaid by expenditures of the municipalities' budgets for servicing the debts. Since 2014 legal changes have been introduced in Bulgaria in order to improve the monitoring and the transparency of servicing such municipalities' debts and reporting the forecasts to the Central government. The main purpose is to improve the sustainability of the municipalities' budgets.

The budgetary relations between the municipalities and the Central Government budget have relied on the implementation and improvement of legal procedures governing 3 financial instruments of the Republican budget: general grant for the state mandated public services and activities at municipality's level, general equalizing grant and target grant for capital expenditures at regional and local level. The Central government

undertakes the financing of mandated public services and activities for municipalities on the basis of standards adopted by a decision of the Council of Ministers of the Bulgarian Government for the relevant year. The Government coordinates the financing of capital expenditures of the municipalities and monitors compliance with the procedure for allocation of resources to municipalities for co-financing of municipal projects under international projects, EU funds and national programmes.

Graph 5. Total External Financing of Municipalities' Budgets in Bulgaria in 1998-2015 (per year in millions BGN)



Source: National Statistical Institute, *Municipalities' finances, 2015*.

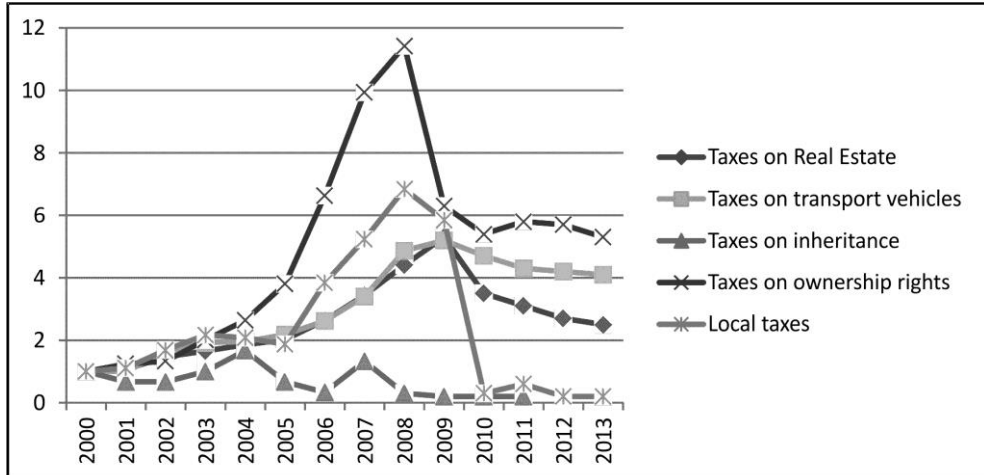
The contemporary situation of Bulgaria's regional development is indicative of the fact that the municipal financial decentralization has not been increased substantially. The role of the Government budget for the regional development is reflected by the fact that the share of the local authorities' financing of regional development is much lower than in other EU countries as the local authorities of the municipalities do not have sufficient in number and reliable in quantity as money inflows sources of own revenues.

Due to the predominant role of the Government budget the debt of local authorities has been manageable and is low compared to other countries. The small share of the municipalities' debt in the structure of total value of the public debt of the Bulgaria is one of the factors contributing to the low level of overall Government debt. Bulgaria's indicator for the public debt as a share of the GDP has increased from 18% to 28% of

GDP in 2013-2014. Yet it is much below the Maastricht criteria for public debt accepted to amount to less than 60% of the GDP.

The low level of the own revenues of the municipalities has been always a problem of the dependency of these revenues on the following main types of local sources of revenues: the local taxes, the taxes on ownership rights, the taxes on real estate, the taxes on transport vehicles and the taxes on inheritance. The revenues from these taxes are very highly dependent on the business cycle and since mid2007 with the start of the financial and economic crisis there has been a strong reduction of these revenues. The reduction of the taxes on ownership rights and real estate has been most sharp due to the fact that the period of the credit boom of mortgage loans and rapid increase of new deals for the purchases of new houses and apartments has been suspended. The housing market has entered a prolonged period of stagnation until 2015 when due to the deflationary trends and the lowering of interest rates which has begun to show signs of revival. Thus the reduction of the relevant local taxes on deals for purchases of real estate has caused interest at the municipalities 'authorities in increasing the taxes on garbage collection and other local taxes and fees.

Graph 7. Sources of local authorities' revenues in Bulgaria in the period (2000-2014) (in % of total budget revenues of the municipalities)

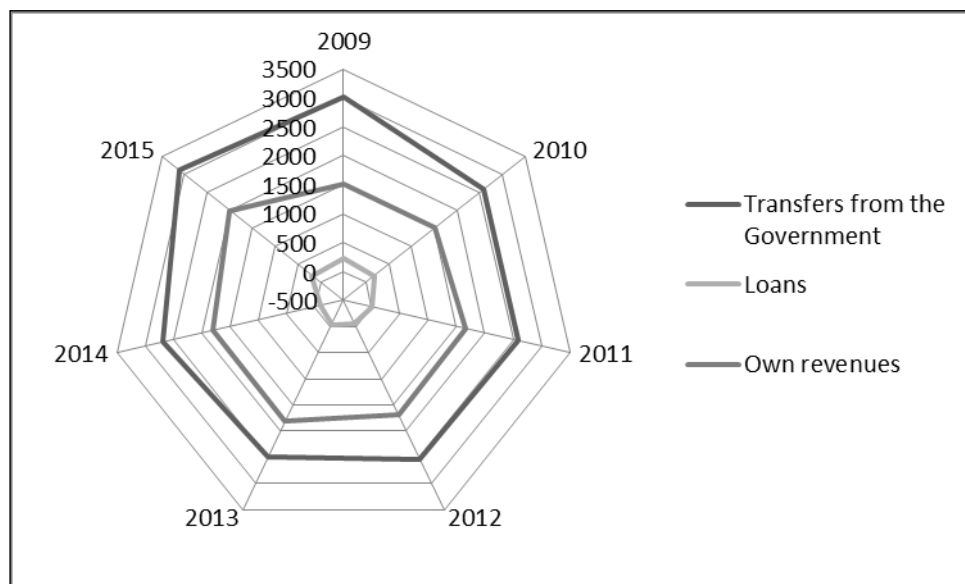


Source: National Statistical Institute, Bulgaria, 2015.

Municipalities have lost own budget revenues of about 3 billion BGN in the period 2009-2012 due to the reduction of their own revenues, reduced government transfers, the reduction of the residual from previous budget period (money saved by municipalities from previous periods) as well as the reduction of other attracted own revenues. In addition, local authorities and the Central government have not reacted adequately to the first signs of the crisis and when it has been unfolded into the economic downturn in 2013-2014 the financing of the municipalities has encountered further challenges of being reduced.

The Government transfers to the municipalities as a source of their budgets' resources have decreased since 2008 due to the overall economic slowdown. However this reduction has become bigger than the degree of reduction of the state revenues. This means that in crisis times the state reallocates funds from some municipalities with higher own revenues to the Republican state budget in order to improve the management of public finances.

Graph 8. Contribution of the main sources of revenues to the budgets of the municipalities in Bulgaria in the period (2009-2015) (in mill.BGN)



Source: National Statistical Institute, Bulgaria, 2015

The transfers from the State (i.e. the Republican) budget are the main source of revenues in the budgets of the Municipalities. Due to the discontinuation of the inflow of tax revenues from the deals with real estate and the depletion of foreign capital inflows since the beginning of the Global crisis even the more developed and richer municipalities have worsened their financial position as their own resources have been reduced. The peak of the increase of own revenues was reached in 2008. Thus the need of increasing the transfers from the Republican State budget has become growing since 2008 and has led to increasing the share of the transfers from the Republican budget since 2008 from 63,3 per cent to nearly 73 per cent in 2014. On the other hand, the possibility of a budget transfer of funds from one budget year to the next in certain cases is problematic but not impossible.

This *system of linear budgeting* stimulates spending the budget transfers and rejects any possibilities to boost savings and thus to look after higher efficiency of public expenditures.

Besides there is a number of legal guarantees and prerequisites for the growth of the revenue part of municipal budgets through the use of bank loans, issuance of municipal bonds, creating conditions for the participation of the municipality in national and international programmes and attract investors and other funds but these instruments of local finance are not well known and have been used only by very few local authorities.

With the changes in art. 141 of the Constitution of The Republic of Bulgaria of February 2007 the City Council has been authorized to determine the amount of local taxes and local taxes in the conditions, rules and within the limits established by the Law on Local Taxes and Fees. With the amendments which entered into force on December 2007, in all municipalities in the country began the process of development and adoption of Municipal Councils Ordinance under Article 1, paragraph 2 of the Fees Act to determine the amount of local taxes for 2008, which has been accepted and entered into force in 2008. Thus for the first time after more than 60-years break again some tax powers have been given to municipalities within the framework of financial decentralization.

IV. Problems and prospects of public governance of regional development financing in Bulgaria

The achievements in the public governance of local finances of Bulgaria's regional development in the last decade encompass the improvement of the process of redistribution and better co-ordination of responsibilities among the different governance levels. This has been combined with the modernisation of the system of financial management and control of public and European funds.

The fiscal rule-based management and the public accountability for the national spending policy have undergone profound changes in compliance with the reform of the economic governance in the EU since 2010. The main reform-driven changes involve the *improved focus of national spending policy's priorities and the upgrading of public expenditure management* which is directed towards strategic targets set in the main strategic documents for regional development.

The financing of regional development is supported by three basic approaches of public governance of local finances.

First, all budget procedures for the preparation adoption, execution, control and monitoring and evaluation of the municipalities' budgets have been subjected to the aim to improve the efficiency of public spending in general and of the local finances in particular.

Second, the decentralization of local governance has increased the "area" of free choice at the municipalities' level as regards the spending of the public money: both from the State budget' s transfers and own revenues of the municipalities. The local self-governance having been given higher degree of choice to spend public money has also had the task to raise the financial control on the local finances;

Third, the need of investments in regional development raises the role of the co-ordination between the Central government and the municipalities in all stages of implementation of investment programmes.

The public governance of the financing of regional development in Bulgaria at Republican level relies on the *maintenance of a set of indicators for monitoring and evaluating the state of the local finances*. This makes possible to monitor closely the needs to provide financial support to the municipalities in cases of crisis management of their own budgets or whenever there are difficulties of servicing the indebtedness of the municipalities with their own cash inflows of revenues.

There are *three groups of indicators of the local finances* which contribute to the improved public governance of regional development as follows:

The first group includes the indicators for the achieved degree of fiscal decentralization of the municipalities. These indicators show the state of governance at municipal level of the own revenues and expenditures of the municipality's own budget. The evaluation is undertaken with regard to the rights and obligations which each one of the municipalities has undertaken with regard to the planning, governance and utilization of its respective financial resources.

The analysis has shown that since the introduction of the regulation of the own revenues of the municipalities in 2003 the growth of own revenues is faster than the

growth of other municipal revenues. The average share of the municipalities' own revenues as compared to their total revenues for the first quarter of 2016 has reached 37.94% while this indicator amounted to 40.17% for the year 2015 as a whole. By the end of the second quarter of 2016 the total number of municipalities with higher than the average level of their own revenues as a share of the total revenues has been reduced from 42 in 2015 to 38 municipalities. The average share of coverage of the expenditures for local funding needs with own revenues of the municipalities for the first quarter of 2016 has reached 100.17% compared to the 81.84% in 2015. In mid-2016 only 62 municipalities have achieved higher results than the average level for the total number of 265 Bulgarian municipalities.

The second group of indicators reflects the evaluation of the financial sustainability of the municipalities. These indicators allow to make evident whether the municipality's own budget is balanced, how serious the problems of budget deficit are, whether there is a risk of overdue liabilities' growth of the municipalities' budget and to what extent the indebtedness of the municipality's has been increased. These indicators for Bulgarian municipalities have shown some improvement since 2012 but problems remain as follows:

The budget deficit of a municipality measured as a share of its overall revenues is an important indicator of the viability of local finances. The average level of this municipalities' indicator for the first quarter of 2016 has reached 22.9% compared to the level of -4.9% in 2015. By the end of March 2016 some 106 municipalities have a budget deficit higher than the average level for the total number of Bulgarian municipalities. This presents a small reduction of the total number of 166 municipalities with budget deficit higher than the average level as recorded by the end of 2015.

The size of the indebtedness of a municipality is measured as a share of the sum of the planned revenues and the planned flattening-down subsidy from the State budget for the respective municipality. This indicator amounts as an average to 54.01% for 2015. It has been slightly reduced to 51.12% on average for the first quarter of 2016. As a whole the indebtedness of the municipalities remains at a considerably high level though only for a small number of municipalities the servicing of their debt on overdue liabilities presents difficulties for the local finances' management.

The share of overdue liabilities of the municipality as compared to the total sum of planned revenues and the planned flattening-down subsidy from the state budget on average amounts to 7.50% by the second quarter of 2016. For the year 2015 this indicator amounts to 7.59% on average for the total number of 265 Bulgarian municipalities. Altogether 89 municipalities have recorded higher level of overdue liabilities than the average level by the end of 2015. The number of this group of municipalities has been reduced to 86 by the second quarter of 2016.

Since the spring of 2016 a mechanism for financial recovery of municipalities has been adopted, which provides tools to promote higher revenue collection and optimization of administrative costs for troubled municipalities by the support of the Republican state budget.

In spite of some criticism of the introduced legal mechanisms of state support of the highly indebted municipalities (Alekseev, 2016), this is a positive step for consolidating the local finances at times of unfavourable economic processes of deepening the disparities between the more developed municipalities and the peripheral ones due to the demographic and structural factors.

However, the implementation of the new provisions for financial recovery of the municipalities may require further improvement of the system of indicators for standardized criteria of financial management of local finances. There is a necessity to create a framework of indicators for the cases of management the financial recovery of municipalities.

The introduction of proper *indicators of the budget position of the municipality which is under a financial recovery with adequately chosen average weights, minimum requirements and benchmarks* according to the criteria stipulated by the Law of Public Finances is inseparable part of introducing good practices and preventing irregularities.

The third group of indicators comprises the *indicators of efficiency of the expenditures of the municipalities* which have also an important role in the governance of local finances. These indicators comprise as follows:

The indicator for *the population served by one municipality employee*. The average value of this indicator for all the municipalities has been reduced to 296 persons served by 1 employee in 2015. Only 52 of the municipalities have a higher value of this indicator compared to the average level.

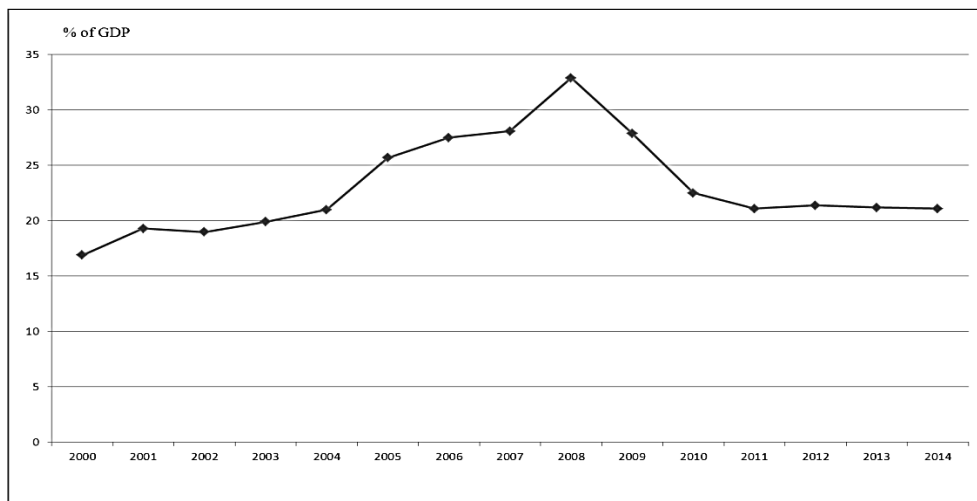
The indicator for *the share of the wages and obligatory social and health security payments to the municipalities' employees* averagely amounts for 2015 to 48, 01% of the total expenditures of the municipalities' budgets. Besides the municipalities with a higher value of this indicator compared to the average have been recorded 201 in number.

The indicator for the investment activities of a municipality is presented by the share of investment expenditures from the total value of expenditures of the municipalities' annual budget. For the 2015 this indicator has an average value of 15, 49%. The municipalities with a higher value of this indicator than the average one are 115 municipalities, thus the greater number of Bulgarian municipalities are characterized

with a lower than the average value of the indicator for the investments expenditures as a share of the overall expenditures of their budgets.

There is a need of mobilizing of adequate own resources on the part of municipalities in order to increase the capital investments. The amount of the additional target state subsidy for capital expenditures of the municipalities also has to be increased . As seen in Graph.9 the investment in total production in Bulgaria as a share of the GDP has been reduced considerably since 2008. While the investment share in GDP increased from 16.9% in 2000 to 32.9% in 2008, it has fallen sharply under the impact of the Global crisis. Since 2009 the investment share in GDP has shown a decrease, which is mainly due to cut in business investments (from 27.9% in 2009 to 21.1% in 2014).

**Graph 9: Investment in Bulgaria for 2000-2014
(as % of GDP, Total, by business and public sector)**



Source: National Statistical Institute of Bulgaria, Sustainable development indicators, 2016.

The assessment of the financial decentralization in Bulgaria under the implementation of the two four-year programmes since 2006 onwards confirms the progress made as well the problems encountered in improving territorial governance. It has been acknowledged that there have been serious delays in the decentralization process especially since 2009. This has led to some slowing down the reform of the delegation of central government services.

The problems during the implementation of the decentralization in 2006-2015 can be summarized as follows:

First, the decentralization of governance powers to the municipalities has achievements in spite of the fact that not all of the previewed tasks have been fully accomplished. On the basis of amendments to the Constitution the municipal councils have rights to determine the amount of the local taxes and fees under the terms, as per the order and within the limits provided for in the Law of Public Finance. Since 2008 the municipalities have the possibility to conduct local finances with more flexible reaction to the business environment and to the actual budget position of the municipality by changing the rates of the local taxes within limits provided for by the Law.

Second, the municipalities have been given more legal rights for the financial management including lending and privatisation of entities which are municipalities' ownership. The patent tax has become a source of own revenues. The distribution of the subsidies for municipal roads has also been better regulated.

Third, the increased rights of the municipalities to collect some taxes as their own revenues have been combined with improving their capacity to collect local taxes. Thus the decentralization contributes to raising the role of municipalities for their own revenues.

Due to the impact of the crisis the decentralization has proceeded in parallel with improving the coordination between the municipalities and the Government. All the emergency cases of crisis management of the natural disasters due to climate change and other reasons of emergency caused by mistakes of people have contributed to this. The experience gained from coordination of local authorities with national institutions contributes to improving the quality of public services for the benefit of the citizens.

In the spring of 2016 *the Draft of a new Strategy and Programme for decentralization for the period 2016-2019* has been proposed for public consultation by the Ministry of Regional Development and Public Works of Bulgaria. It is envisaged that by 2018 new mechanisms for determining capital and countervailing subsidy to municipalities will be introduced.

By the end of 2019 a new overall concept for the "Second level" of government will be prepared to be implemented. It is scheduled to undertake further phased delegation of additional activities of municipalities, which will be reflected in the legal regulations with the relevant changes. In this connection legislative changes are to be introduced to transfer part of the income tax to the municipalities, so that they may have a new source of own revenues. The necessary planning and preparation of the review mechanisms of the budgetary procedure will be undertaken in 2017. Any amendments to the Law on

Local Taxes and fees relating to transferring the right to the municipalities to charge "garbage" tax on the principle "the polluter is due to pay" is also postponed in 2016. The introduction of programme budgeting for the municipalities is foreseen for 2019 as well.

The programme of decentralization to 2019 sets as a target to expand the capacity of local authorities to combat everyday crime and the protection against floods, fires and other disasters. It is envisaged that the Ministry of Interior to prepare standards for the construction of video surveillance by local administrations. On this basis it is necessary to develop a concept of building an integrated national surveillance system and a national crisis center and to create registers with built-in video surveillance systems in commercial and other objects with mass presence of people.

At the present stage the Municipalities have at their disposal better chances to attract additional financial resources needed for projects' implementation especially under European Union funded programmes. Their access to specially created National Guarantee Fund and special Schemes as the ones of the Bulgaria's Bank of Development create better opportunities for projects' involvement of the municipalities and better absorption of EU funds.

More powers are to be given to the municipalities in the management of education in educational bodies under the municipalities' governance.

There are new opportunities for municipalities to encourage businesses to attract investment and create new jobs.

The future of improving the public governance of the investment potential of the municipalities will depend on the progress in the following aspects of improved public governance of local finances:

- creation of better own capacity of the municipalities to undertake medium term programmes and plans for regional development and to increase the efficiency of the public expenditures for investments;
- undertaking measures for the financial control on local finances and prevention of corruption and irregularities in their management;
- improving the sustainability of the results achieved by the municipalities at the expense of public money by improving the synergy with other sources of financing of regional development;
- Increasing own resources of the municipalities and raising the potential to allocate them efficiently as capital expenditures for improving public services;

- strengthening the public accountability of the municipalities by adequate institutionalization of public consultations and citizens' control and involvement in spending public money for regional development.

The steps towards *further decentralisation of public finances* are inseparable part of the improved functional and institutional capacity of the Central Government institutions. This reflects the stage of Bulgaria's development as open market economy highly dependent on its progress to accomplish the necessary institutions' building and to increase their capacity (Minassijan, 2012). The role of institutions at all stages of public governance in the field of public finances in Bulgaria may be viewed upon as very positive one for increasing the efficiency of the public money. Further strengthening the fight against corruption is on the agenda not only as regards the changes in public procurement law and adoption of new Law against corruption in 2016, but also with regard to the improvement of financial management and control at municipalities' level.

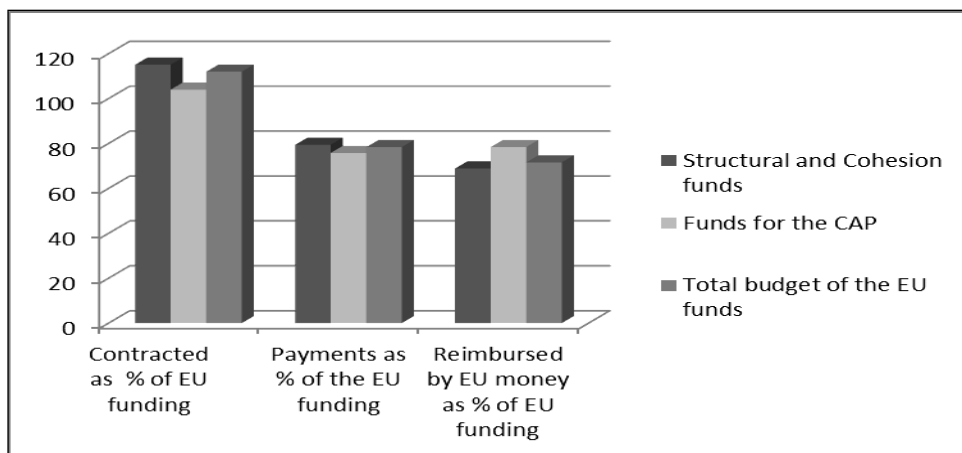
The role of public governance of the financing of regional development has increased with the successful implementation of the Operational programmes for EU funds. During the 2007-2013 period EU funding amounted to 9% of the total budget expenditure but contributed to 80% of public investments at local level.

The analysis shows that the regional development follows a clearly positive trend, especially visible in the most off-track municipalities and regions. The EU Cohesion Policy has achieved one of its aims in Bulgaria in the 2007-2013 period – to contribute to lower disparities among regions and increase employment and incomes. The local wealth has been improved as a result of the impact of European funds as additional factor of growth and welfare (Cowling, Sugden, 1999). The real GDP towards the end of 2015 was 10.1% higher compared to a scenario where Bulgaria cannot invest the financing granted by the Funds. Towards the end of 2015 the unemployment rate in the country is 6.2 percentage points lower than it would have been without the inflow of European funding – meaning about 30% fewer unemployed persons, while the number of people in employment increased by 14.4% towards the end of 2015 (Donchev, 2015).

At the present stage the public governance of regional development in Bulgaria is involved with the fulfillment of the Operational Programmes for the period (2014- 2020) with regard to regions in growth, SME support, environment, transport and transport infrastructure, rural development, human development, science and education for smart growth as well as transborder regional cooperation. Since 2014 when the new programming period of the EU's Cohesion Policy has started, Bulgaria has undertaken its implementation on the basis of a new Partnership Agreement with the EU and the Operational Programmes having been approved. A major emphasis in the EU strategy for

regional and urban development has been laid on the importance of investments to recover from the crisis that has significantly increased regional disparities.

Graph 10. The absorption of EU funds in Bulgaria in the period (2007-2013) up to the 31 of March, 2015 (in % of total EU funding for Bulgaria)



Source: Ministry of Finance of Bulgaria, 2016.

In the context of the changes in the New Cohesion policy of the EU for the period 2014-2020. Bulgaria has paid major attention to a new Strategy of spatial development by addressing not only sectoral but overall spatial issues of regional development. Combining horizontal and vertical policy approaches the public governance has acknowledged the problems of regional disparities in the country and the need of territorial cohesion by improving multi-level governance, deepening the European integration and addressing grand societal challenges of the Europe 2020 strategy: innovative and inclusive growth, employment, education, ageing, migration, poverty and climate change.

Conclusion

In the period (2007-2015) the regional policy in Republic of Bulgaria has been subject to significant transformations and reforms. These reforms aim at simplifying and consolidating a highly fragmented subnational public sector along three lines, one emphasizing the newly introduced regions according to NUTs, the maintenance of the territorial administrative divisions of state governance as administrative regional

governance and increasing the role of the municipalities' local governments under the strategies of local governance and financial decentralisation.

The strategy followed for the regions is to move from a highly centralized system based on the administrative division and representation of State power to a participatory approach based on regions, while retaining the traditional departments but reassigning the competencies between the Republican level and the local authorities (being both administrative and local authorities) as elected at the local elections for the municipalities.

In the period since the entry of Bulgaria in the EU greater importance has been paid to the strategy adopted to consolidate the local government sector. In fact this sector with the high number of municipalities is extremely patchy. Yet, even before the EU accession, municipalities had the right to undertake some forms of self-governance and to establish various forms of intermunicipal cooperation on a voluntary basis.

Bulgaria differs considerably from some other EU member states where the national governments have entered a stage of transition to decentralisation of the governance of regional development combined with certain withdrawing of the Central government from strategy formulation and decision-making in regional policy. This approach relies upon giving priorities to the role to be played by stakeholders in regional development and thus more issues at the local level of governance have become necessary to be coordinated regionally (Rakar, Tallberg, 2014). Since its EU entry Bulgaria has experienced deep transformations to financial decentralization and the demands on the institutional capacity of the regional development have increased. The economic and financial crisis has delayed the transition to decentralization as the revenues of local authorities have been decreased substantially and Government transfers from the Republican budget have become very important to cover the pending needs of public funds.

The local finances are subject to a further process of decentralization from the Republican Budget since the entry of Bulgaria in the EU in 2007. The achievements in this field have improved the institutional capacity building of the local authorities which is in favour of regional development and give chances to further implementation of the Strategy of decentralization of public finances. There are some conflicting views on continuing the process of improving the functional and institutional organization of local authorities. In this sense, very important is the issue of some restructuring in the areas of competences of the Local level of government.

There has not been sufficiently effective control over the activities of local authorities and the right balance between control and interference in their work is constantly under external audit and review. For the period 2014-2020 Bulgaria's public governance of

regional development has set new targets for further improving the efficiency of multilevel governance, including the role of local finances. Fighting corruption at all levels of public governance has also proved to be significant for the efficiency of public money spent for the benefit of regional development.

There are some imperfections in the formula of Republican budget transfers to local authorities and difficulties in securing financial resources from the Republican state budget sometimes allow circumvention of the objective mechanism for financial regulation and switching to "manual control", i.e. allocation of resources ad hoc and upon emergency and thus the Bulgarian state continues to be a guarantee of local deficits. Municipalities should have better control over their revenues in order to be able to analyze the effectiveness of one or another of their own expenditures and activities. The regulation of financial recovery of the budget position of the municipalities may contribute for further improvement of the financial management and the sustainability of local finances in favour of regional development.

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