

Does Larger  
Mean More Effective?  
Size and the Function of  
Local Governments in Bulgaria

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# Does Larger Mean More Effective? Size and the Functioning of Local Governments in Bulgaria

Stefan Ivanov, Guinka Tchavdarova, Emil Savov, Hristo Stanev

## 1. INTRODUCTION

During the years of transition, the administrative and territorial structure in Bulgaria was characterized by relative stability of the lowest (decentralized) level of local government—the municipalities. The preserved size of local government here is in contrast with the relative fragmentation occurring in some of the other Central and East European countries. At the same time, a slight trend towards formation of new municipalities, through division of some settlements, has also been monitored in the recent years.

The fragmentation of municipalities strengthens the link between the population and the local government and is a manifestation of the democratic process rising forth after the collapse of communism. On the other hand, large size municipalities enable the provision of more and higher quality local services while other things remain the same. That is why, in the last 20 years, a trend towards aggregation of municipalities is being monitored in West Europe (for example the Scandinavian countries). Meanwhile, there are also examples of very fragmented structure and conservative attitude towards any administrative changes (France).

Fragmentation or aggregation—two approaches, each of them with advantages and disadvantages. Which of them is more adequate for the conditions, and for practice, in Bulgaria? How is the link between the population and the local government in the municipalities of different sizes established? How does this influence the democratic process of election, local representation, citizen satisfaction and citizen participation in decision making? Are large municipalities able to conduct more independent local policy and to provide more and higher quality services to citizens and businesses?

The goal of this paper is to answer to these questions by analyzing Bulgarian practice, evaluating the influence of the size of local government on the coverage and quality of the provided local services, and local democracy.

All municipalities in Bulgaria are placed in one of 5 groups for the purpose of the analysis:

- Group 1—Sofia (capital city of Bulgaria);
- Group 2—the municipalities with a population above 75,000 people;
- Group 3—the municipalities with a population between 30,000—75,000 people;
- Group 4—the municipalities with a population between 10,000—30,000 people;
- Group 5—the municipalities with a population below 10,000 people.

The paper has the following structure:

- Main macroeconomic indicators, characterizing the share of the local governments in the public sector;
- Presentation of the administrative and territorial structure of the country and the main characteristics of the municipalities;
- Analysis of the relationship between the size of local governments and their operation and the manifestation of local democracy;
- Presentation of national debates on the size of municipalities;
- Conclusions and recommendations for changes in the size of local governments and their operation.

## 1.1 Background Information

The share of local budget expenditures within the consolidated state budget and GDP in the '90s was characterized by strong changes. Several periods can be identified:

*Period One*—up to 1992. In this period, reforms in the country began (1991) leading to a strong decline in the share of consolidated state budget in the GDP. The share of central institutional expenditure declined, while the share of local budget expenditures increased in relative terms;

*Period Two*, from 1993 to the crisis of 1996–1997. The local finance reform practically started in the beginning of 1993 with the introduction of the intergovernmental transfer formula. A rapid decline of the share of local expenditures in GDP and in the consolidated state budget was monitored during the entire period. The total public expenditures were also declining, but their rate of decline was smaller than that of the local budgets;

*Period Three*, from 1998 to the Present. This period is characterized by a second stage of legal changes within local government activities and beginning of large structural changes in local budgets. In 1998, both the share allocated to local budgets from the consolidated state budget and the GDP increased as a result of the

introduction of the Local Taxes and Fees Act and the Local Budgets Act. A stable share of the local budgets in GDP ensued, while central government expenditures increased, leading to a relative decline in the share of local expenditures allocated by the consolidated state budget.

Since the beginning of the reforms in the country (1991–2000), the share of public expenditures in the GDP has declined by 13% during the entire period. This is the result of a 9% decline in the central government expenditures and 28% decline in the local government expenditures. This indicates that, during the entire period, the financial problems connected with the reform have been transferred from the central to the local governments.

*Table 4.1*  
Share of Central and Local Government Expenditures  
in the Consolidated State Budget (CSB) and GDP [%]

Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
CSB/GDP	67.48	51.11	53.66	56.09	54.41	49.09	43.65	39.50	40.27	43.52	44.53
CG/GDP	55.14	40.16	40.63	44.78	45.17	41.38	37.32	33.71	32.57	35.38	36.65
LG/GDP	12.34	10.95	13.04	11.30	9.24	7.71	6.34	5.79	7.70	8.14	7.88
LG/CSB	18.28	21.43	24.29	20.15	16.98	15.70	14.52	16.31	19.12	18.71	17.70

The relative contraction in the public institutions' budgets is logically explained and justified following a period of total state domination in economic and social relations. Meanwhile, local governments financial resources decline faster compared to those of the central government. The decline in local government financial resources is also greater than the decline in the public goods and services produced and provided by municipalities. The foremost reason for the present financial situation of municipalities is due to this lack of correspondence.

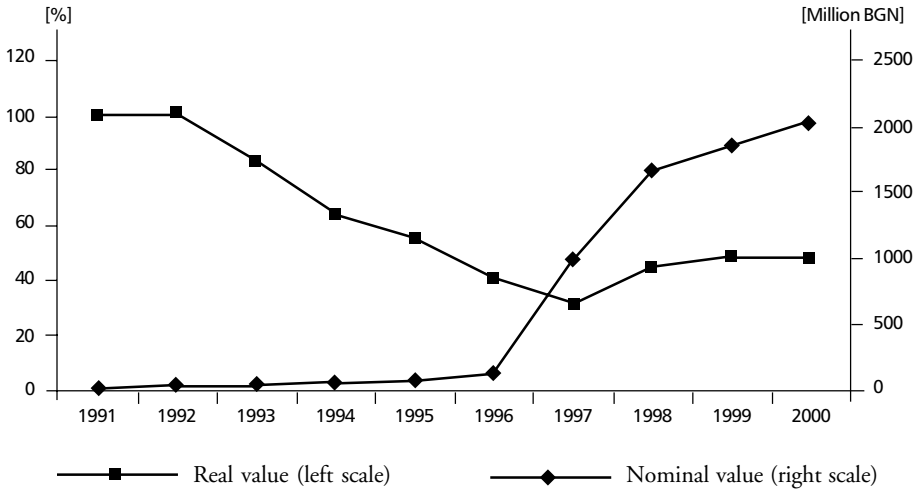
During the period studied, local revenues have also been influenced by inflation. The great nominal increase is accompanied with a strong decline in real purchasing power. The local budgets lost over 50% of their real purchasing power in the period between 1991–2000<sup>1</sup> (See Figure 4.1). This decline occurred entirely in the second period, between 1993–1997, when the municipal financial resources depreciated by almost 3 times. An increase in the real value of the local budgets was observed in 1998, followed by a period of stabilization and slight growth.

The non-elastic revenues from taxes and fees were the reason for the decline in the purchasing power of municipal financial resources. So, for example, tax bases and fees are fixed by law, it also determines the relative decline in the revenues resulting

from them. The wage increases are smaller than the growth of inflation, which, in turn, decreases the PIT revenues. Only the revenues from CIT are closer to the inflation rate, and only they can be defined as elastic.

Thus, inflation turns out to be the second factor in the declining financial power of local governments.

*Figure 4.1*  
Influence of Inflation on Municipal Budget Revenues



Other characteristic features of local budgets are their total dependence on the state transfers (subsidies and shared taxes) and local governments’ growing budgetary deficits.

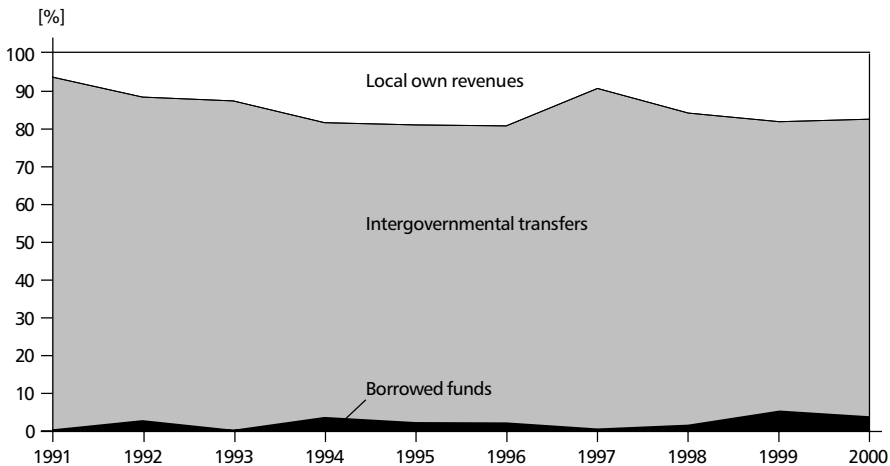
Intergovernmental transfers form between 80–90% of all local budget revenues during the period studied (See Figure 4.2). The structure of local budget revenues is practically formed under the definite influence of changes in the mechanism in allocation of the intergovernmental transfers. Centralization of the local revenues from shared taxes was observed throughout the first two periods (up to 1996). This increased the relative share of local revenues (local taxes, fees, revenues from local activities). Then, in the beginning of 1997, high inflation depreciated the local revenues by returning to the structure of the local budget revenues to where it had been during the first year of economic reforms in the country—1991. The new Local Taxes and Fees Act contributed significantly to the increase of local revenues in 1998. The revenue from borrowed funds had marginal importance for the local budgets. The country’s financial situation had been generally deteriorating within recent years and, in particular, the conditions for borrowing and issue of bonds. This led to a gradual decline in the number of

borrowed funds, which had almost reached zero by 1997. The few attempts in this sphere since 1998 are not likely to become a trend because this is all related to Sofia and the State Budget Acts for 2000 which imposed legal restrictions for local investment.

The crisis years between 1996–1997 were the origin of the local budget deficit. In 1996, the budget deficit amounted to 9.5% of local budget expenditures. Then, in 1997, the government tried to combat the local deficit by providing a significant amount of extraordinary subsidies—2.6% from all local expenditures. As a result of this, the deficit declined to 2.35%. The deficit has been growing ever since that moment, although the amounts provided during the certain years of extraordinary subsidies has continued to grow.

The centralization of municipal financial resources is the third reason for municipalities' current financial situation.

*Figure 4.2*  
Structure of Local Budgets (1991–2000) [%]



## 1.2 Administrative and Territorial Divisions in Bulgaria

### 1.2.1 Brief History of the Changes in the Territorial Division of Bulgaria

Size of municipalities is very important for the formation of strong and democratic local governments. In relation to this, administrative reform that began in the early '90s, introduced laws that guaranteed the participation of the population in the formation of municipalities and their size.

The territorial division and the government tiers resulted from the guidelines provided by the Constitution, but two special laws concretely regulate them.

Five administrative reforms have been conducted in the last 50 years. These reforms included changes and transformations in the administrative units at the different government levels and they are illustrated by Table 4.2.

*Table 4.2*  
Dynamics of the Administrative Reforms

Year of the Reform	Administrative Units [Number]			Average Population in One Administrative Unit [Thousand People]		
	Okrug	Intermediate Tier	Obstina	Okrug	Intermediate Tier	Obstina
1947–1950	14	102	2,178	516.3	61.8	3.3
1959–1961	28	—	979	261.0		8.0
1979	28	—	291	315.9		30.4
1987	9	—	273	997.4		32.9
2000	28	—	262	284.8		30.3

Based on the analysis of the administrative reforms carried out during this period, the following conclusions can be drawn:

- The Bulgarian municipality (obstina) has become the main component in the structure of the Bulgarian state and is permanently present in Bulgarian society. The daily lives of the Bulgarian people are closely linked with their municipality, where important issues are resolved. The disadvantages of local government have been caused by the aspirations of the central government to subordinate it both administratively and financially. The strong positions and traditions of the municipalities within the vicinity of local government have been restored after the 1989 changes. Since 1991, local government has become constitutionally and legally regulated.
- Bulgaria maintains a two-tier administrative division, with the exception of the period between 1947–1959.

The administrative units existing on the regional tier are called okrug and oblast. They perform main central government functions. An intermediate unit, called *okolia*, has existed for a short period of time between the regional and the local (municipal) tier.

### 1.2.2 Situation of the Present Administrative Divisions in Bulgaria

According to the present Act on Administrative and Territorial Division of the Republic of Bulgaria, the country has a two-tier administrative structure, including two types of administrative units—*oblast*<sup>2</sup>, and a municipality system.

*The region (oblast)* is an administrative unit of the central government. It comprises of one<sup>3</sup> or several neighboring municipalities. The regions can be created and liquidated only under certain laws. A regional governor, appointed by the Council of Ministers<sup>4</sup>, governs the regions. Presently 28 regions exist. These were established by splitting the 9 regions that existed before 1999.

The regions are defined by the following parameters:

- Population: average population—285,000 people; minimum population—131,000 people (Vidin Region); maximum population—1,174,000 people (Sofia City Region);
- Territory: average territory—4,000 sq.km.; minimum territory—1,300 sq.km. (Sofia City Region); maximum territory—7,700 sq.km. (Bourgas Region);
- Number of municipalities: average number—9 municipalities; minimum number—1 municipality (Sofia City Region); maximum number—22 municipalities (Sofia Region);
- Number of settlements: average number—191 settlements; minimum number 38 (Sofia City Region); maximum number—478 municipalities (Kardjali Region);

According to the Constitution, *the municipality (obstina)* is the main (and by now the only) tier of local government in the country. A municipality is comprised of one or more settlements and its territory comprises of the territories of the component settlements. The municipality is then named after the administrative center. The municipality is a legal entity. It has own independent budget and property that it can use to serve its interests. The bodies of local government—the municipal council and mayor—are elected directly by the population within the whole municipality. The municipalities can still have their own structural units—districts and mayoralties. *Districts (raioni)* can be established in larger cities, with populations over 100,000 people, based on the decision of the municipal council or, within the large cities with population over 300,000 people themselves, based on the law. Presently, only the capital city of Sofia and the second and third largest cities have districts. The number of these districts is as follows: Sofia—24 districts, Plovdiv—6 districts, and Varna—5 districts. The *mayoralties (kmetstva)* can be established with the permission of the municipal council and they comprise of one or more neighboring settlements. Presently 1,696 mayoralties exist in Bulgaria. The number of mayoralties varies depending on the policies of the municipal councils. The mayoralty is a diluted municipal administration (located in a settlement) governed by an elected person.

*Table 4.3*  
Characteristic Features of the Regions in Bulgaria

Regions	Territory (2000)		Population		Municipalities		Settlements	
	[sq.km]	[%]	[Number]	[%]	[Number]	[%]	[Number]	[%]
Blagoevgrad	6,449.5	5.8	343,370	4.3	14	5.3	280	5.2
Bourgas	7,748.1	7.0	426,028	5.3	13	4.9	257	4.8
Varna	3,819.5	3.4	465,012	5.8	12	4.6	158	3.0
Veliko Turnovo	4,661.6	4.2	294,790	3.7	10	3.8	336	6.3
Vidin	3,032.9	2.7	131,215	1.6	11	4.2	142	2.7
Vratza	3,619.8	3.2	227,766	2.9	10	3.8	123	2.3
Gabrovo	2,023.0	1.8	144,849	1.8	4	1.5	356	6.7
Dobrich	4,719.7	4.3	217,012	2.7	8	3.0	215	4.0
Kardjali	3,209.1	2.9	164,958	2.1	7	2.7	471	8.8
Kjustendil	3,051.5	2.7	163,388	2.0	9	3.4	182	3.4
Lovech	4,128.8	3.7	171,236	2.1	8	3.0	150	2.8
Montana	3,635.6	3.3	183,353	2.3	11	4.2	130	2.4
Pazardjik	4,456.9	4.0	313,059	3.9	11	4.2	117	2.2
Pernik	2,394.2	2.2	150,318	1.9	6	2.3	171	3.2
Pleven	4,653.3	4.2	330,745	4.1	11	4.2	123	2.3
Plovdiv	5,972.9	5.4	721,905	9.1	17	6.5	215	4.0
Razgrad	2,413.9	2.2	146,444	1.8	7	2.7	101	1.9
Russe	2,877.4	2.6	270,161	3.4	8	3.0	84	1.6
Silistra	2,846.3	2.6	142,815	1.8	7	2.7	118	2.2
Sliven	3,544.1	3.2	220,273	2.8	4	1.5	120	2.2
Smolian	3,192.9	2.9	140,664	1.8	10	3.8	242	4.5
Sofia City	1,344.4	1.2	1,173,811	14.7	1	0.4	38	0.7
Sofia Region	7,062.3	6.4	273,882	3.4	22	8.4	284	5.3
Stara Zagora	5,151.1	4.6	372,849	4.7	11	4.2	206	3.9
Targoviste	2,710.4	2.4	142,872	1.8	5	1.9	199	3.7
Haskovo	5,533.3	5.0	279,067	3.5	11	4.2	261	4.9
Shumen	3,389.7	3.1	205,198	2.6	10	3.8	151	2.8
Yambol	3,355.5	3.0	156,631	2.0	5	1.9	109	2.0
Total	111,002.2	100.0	2,973,671	100.0	263	100.0	5,339	100.0
Average	3,964.4	3.6	284,774	3.6	9		191	

Presently, 263 municipalities exist in Bulgaria. One new municipality has recently been established. Although legal possibilities for the splitting and merging of municipalities exist, their numbers are not very dynamic. Seven new municipalities have been established in the last five years. More intensive changes have been observed on the borders of the municipalities because populations within certain settlements may have actually requested that settlement locate within the borders of another municipality.

The municipalities are defined by the following parameters:

- Territory: average territory—422 sq.km.; minimum territory—44.4 sq.km.; maximum territory—1,367 sq.km.
- Population: average population—30,000 people; minimum population—1,300 people; maximum population—1,134,000 people.
- Number of settlements: average number of settlements—20; minimum number of settlements—1; maximum number of settlements—134.

*Table 4.4*  
Distribution of Municipalities in Bulgaria  
Based on Population in 2001<sup>5</sup>

Groups	Number	% of Total	Population	% of Total
1,000–5,000 people	28	10.65	94,582	1.19
5,001–10,000 people	71	27.00	529,954	6.65
10,001–20,000 people	77	29.28	1,124,143	14.10
20,001–30,000 people	30	11.41	736,231	9.23
30,001–50,000 people	24	9.13	872,738	10.95
50,001–75,000 people	13	4.94	819,563	10.28
75,001–100,000 people	8	3.04	673,633	8.45
100,001–160,000 people	6	2.28	725,332	9.10
Over 160,001 people	6	2.28	2,397,495	30.07
Total	263	100.00	7,973,671	100.00

What is evident from the data is that the group of municipalities with populations of 10,000–20,000 people dominates with a total of 77 (or 29.28%) of the municipalities. They are followed by the population group with 5,000–10,000 people, with a total 71 municipalities.

### *1.2.2.1 Nature of Administration by Government Tiers*

It has already been pointed out that the regional administration is part of the central government administration. The total number of employees in the regional administrations is small—about 1,100 people, 80% of whom have university degrees. Women prevail among the regional administrations at 64% of all employees.

The municipal administrations perform local government functions. The municipal councils have the legal powers to determine the structure and the number of employees in the municipal administration. However, many centrally determined legal requirements as well as restrictions, also exist. The number of municipal administrators is 18,000 people, over 40% have university degrees. The municipal administration is mainly localized in the settlement, which is the administrative center of the municipality. This houses 65% of the municipal servants. The rest of the municipal servants work within the mayoralties and the districts.

### *1.2.2.2 Legislation Regulating Changes in the Country's Territorial Organization*

The Act on Administrative and Territorial Division of the Republic of Bulgaria, adopted in 1995, determines the way and the conditions for establishing and changing administrative units. The adoption of this law determined a new meaning for the term “administrative and territorial structure”. It means; “a continuous process for creation of administrative and territorial units in the country, for development of local government and conducting administrative changes according to the will of the population and the state interests”. The law is based on a number of principles, the most important of which are: the principle of territorial neighborhood; compliance between the size of the administrative units and their competencies and resources; the subsidiarity principle; the principle of succession and territorial stability of the administrative structure and democratic choice in decisions that effect particular administrative and territorial changes.

The law determines the following conditions necessary for creation of a new municipality:

- The total combined population of the settlements, to be included in the municipality, should be over 6,000 people.
- There should exist a settlement that can serve as the center, with established social and technical infrastructure and ensuring the servicing of the population.
- The maximum distance between the center of the municipality and the settlements should not exceed 40 km.
- The new municipality may include those neighboring settlements that can neither become a separate municipality nor join another neighboring municipality.
- The new municipality should be able to finance its expenditures with own source revenues, which should be equal to at least half of its average own

source revenues for the municipalities as approved by the state budget act for that respective year. For example, if the municipalities in the country support 50% of their expenditures with own source revenues on the average, then the newly established municipality should have the ability to cover at least 25% of its expenditures with own source revenues.

The new municipalities are created through:

- Separation of one or several neighboring settlements from an existing municipality and establishment of a new municipality;
- Merging of two or more municipalities within one municipality, or one municipality annexing another one;
- Splitting of one existing municipality into two or more municipalities.

The procedure for the establishment or liquidation of a municipality requires the enactment of a local referendum and a positive vote from the population. A decision by the Council of Ministers and a decree from the President should follow this. In cases of a positive vote from the population, it is possible for the government to decide not to establish a new municipality. However, the opposite is impossible: to create/liquidate a municipality following a negative vote from the population.

The establishment of districts (as components of the municipality) is based on some conditions for the number of population (over 25,000 people). Districts can be established in cities with populations over 100,000 people. The mayor proposes, and the municipal council approves, the establishment of districts. This procedure is not applied in the case of districts established in the capital city and in cities with populations over 300,000 people because their territorial division is subject to special laws.

The establishment of a mayoralty (as a component of municipality) requires a population over 500 people and capacity for the performance of functions assigned by the municipality. The procedure also includes a referendum. The municipal council can only make a decision after a positive vote from the population of the new mayoralty.

The country's main changes in the administrative and territorial structure can be performed through mergers, divisions, annexing, separation and liquidation. The legislation oversees when each of these procedures is performed. Referendums are always required for the municipalities and the mayoralties. No such requirement is needed for the districts.

The legislation also regulates the procedures for changing the center of the administrative unit, the name of the settlement, creation of a new or liquidation of an existing settlement, giving "city" status to a village, etc.

The main features of the present legislation concerning administrative and territorial structure can be summarized as follows:

- Legal criteria are used to establish each category within the administrative unit. These criteria are objective and easily determined;
- All changes in the administrative and territorial division are done based on clear procedures and taking the will of the population into consideration;
- Continuous change, pending the will of the population, is guaranteed but only permissible two years after passing similar legislation;
- The authorized bodies cannot impose authoritarian decisions when the population has voted negatively against it;
- Each act can be claimed in court.

Special legal codes are needed for the establishment of regions and changes in their borders. The general procedure for such changes does not envisage a referendum. A decision of the Council of Ministers is needed to separate one or several settlements from one municipality and include them in another municipality on the territory of another region.

### 1.2.3 Local Government Disparities

#### 1.2.3.1 Demographic and Settlement Structures

As it has been noted in the present paper’s introduction, the municipalities are placed in 5 groups based on population.

*Table 4.5*  
Distribution of Municipalities by Groups Based on Population

Groups	Population	Number of Municipalities	% of Municipalities	% of Population	Average Population per Municipality
Group 1	Sofia	1	0.38	14.79	1,211,531
Group 2	Above 75,000	20	7.63	33.21	136,011
Group 3	30,000–75,000	39	14.89	21.42	44,990
Group 4	10,000–30,000	110	41.98	23.40	17,426
Group 5	Below 10,000	92	35.11	7.17	6,387
Total		262	100.00	100.00	31,263

The municipalities differ not only based on population but also based on their major demographic characteristics. The data on Table 4.6 indicates that decline in the size of municipalities is accompanied by:

- Decline in the share of urban population. The amount of urban population within the country averages about 68%. However, the rural population dominates in most municipalities.
- Deterioration of the demographic structure of the population. This is manifested mainly through the decline in the working age population and the increase of the elderly population. The integral evaluation is represented by the coefficient of demographic structure<sup>6</sup>. The table indicates that the most favorable population structure is observable in the larger municipalities while the most deteriorated population structure is observable in the smaller municipalities.
- Intensifying depopulation process. The reasons for this are both negative natural growth and migration abroad. The last column of the table indicates that depopulation affects the municipalities in all groups, except Sofia.

*Table 4.6*  
Main Demographic Characteristics of Municipalities

Groups	Share of Population			Coefficient of Demographic Structure	Share of Urban Population	Changes in Population (1999/98)
	Below Working Age	Working Age	Above Working Age			
Group 1	15.49	61.97	22.54	101.52	95.69	100.99
Group 2	17.84	62.09	20.07	110.50	87.05	99.59
Group 3	18.23	56.70	25.07	99.99	55.98	99.12
Group 4	18.59	52.95	28.46	94.59	44.90	99.17
Group 5	16.14	47.60	36.26	80.67	35.46	98.59
Average	17.63	57.72	24.65	100.00	68.09	99.52

SOURCE: Data from the National Statistical Institute, 31 December 1998 and 31 December 1999

*Table 4.7*  
Territory and Settlement Structure

Groups	Territory [sq.km]	Average Number of Settlements	[Sq.km/Settlement]
Group 1	1,344	38	35
Group 2	583	36	16
Group 3	677	32	21
Group 4	423	20	21
Group 5	272	12	22
Average	424	20	21

The country’s unfavorable demographic processes still has not significantly affected the settlement structure. Settlements are relatively evenly distributed across the country. Data indicates that larger municipalities have larger territory and include more settlements. The splitting of municipalities in the 1990s affected the group of smallest municipalities and contributed to their small territory and the few settlements within them.

*1.2.3.2 Socio-Economic Disparities*

According to data from the Year 2000 Annual Report<sup>7</sup>, the level of socio-economic development within the municipalities is evaluated based on 10 indicators represented by an integral indicator. The average level of these indicators for the groups is presented in Table 4.8.

*Table 4.8*

Level of Socio-Economic Development of the Municipality Groups for 2000  
(Average for the country=100)

Groups	Integral Indicator for Socio-Economic Development
Group 1	195.53
Group 2	105.19
Group 3	84.98
Group 4	80.54
Group 5	75.48

The data indicates a relationship between the size of municipalities and the integral evaluation of their socio-economic situation. Evaluations for groups 4 and 5 would rank even lower if about 10 municipalities, those with territory where large industrial companies are located, were excluded. These 10 municipalities are among the most developed municipalities in the country, according to the per capita value of the indicator.

This fact distorts the concrete economic indicators even more. Table 4.9 indicates that the municipalities from group 4 emerged ahead of the municipalities from group 3 based on the indicators created by corporate profit and monetary incomes per capita. So, for example, only 6 highly developed municipalities (out of the total 110) from group 4 made 32% of the profit and had 46% of the income of the entire group. Using the same logic, 6 developed municipalities from group 5 (out of a total of 92) formed, respectively, 31% and 32% of the total profit and the income of their group. That is why the influence of these municipalities should be taken into account when interpreting the results.

The size of municipalities and the social indicators are in reverse relation. The problem with the distorting influence of the small and highly developed municipalities does not exist here yet. Relatively high unemployment and large groups of population receiving social benefits are what has been noted here.

*Table 4.9*

Main Socio-Economic Indicators by Municipality Groups in 2000  
(Average weighted values, average for the country=100)

Group	Corporate Profit	Monetary Incomes	Social Benefits	Unemployment Rate	
				31.12.1999	31.12.2000
Group 1	250.74	226.72	32.77	26.31	25.01
Group 2	92.94	101.85	80.87	81.51	81.21
Group 3	52.03	64.24	107.39	111.68	112.54
Group 4	76.37	64.71	142.71	145.53	146.13
Group 5	42.24	52.06	165.76	156.73	157.12
Average	100.00	100.00	100.00	100.00	100.00

The data from the table indicates significant disparities between Sofia and the rest of the municipalities based on all the presented indicators. In fact, Sofia occupies 5<sup>th</sup> place in the ranking of municipalities based on the level of socio-economic development. The difference between Sofia and the small, highly industrialized municipalities is that the social and economic indicators for Sofia are relatively evenly distributed. In contrast, some indicators for the small-industrialized municipalities have very high values and others have very low values.

Such even distribution of the values of the socio-economic indicators is also noted for the large municipalities in Group 2. The larger municipalities have values lower than the average for the country as a result of the shut down of major industrial enterprises and decreasing incomes. Such municipalities are Vidin, Pernik, Sliven, Yambol, Pazardjik, etc.

#### 1.2.4 Political Mechanisms and Political Representation

The main municipal bodies entitled by law to make governmental decisions are the municipal council and the mayor. The municipal council is the representative body for the local government that determines the policies for development of the municipality, adopts the budget, and ensures the management of municipal property. The

mayor performs executive functions. The mayor directly manages the municipal administration as well as ensures the performance of the municipal budget and the decisions of the municipal council.

The *municipal council* comprises of the elected municipal councilors. The Local Government and Local Administration Act determines the number of municipal councilors based on the population of the specific municipality. The number of municipal councilors varies from 11 to 61 people. The procedure for electing municipal councilors is determined by the Local Elections Act. Municipal councilors are elected on the basis of proportionate representation. The registered political parties, or coalitions, register their candidates on independent lists. These are blocked lists, they cannot be changed during the vote. Independent candidates not linked with any party may also participate. A committee, comprising of a certain minimum number of voters that have signed the nomination petition, submits their nomination. The distribution of the positions depends on the votes and is based on the d'Hondt method. The mandate of the municipal council is 4 years.

The local elections held at the end of 1999, elected 262 municipal councils with 5,249 municipal councilors. Men prevailed among the municipal councilor seat takers (79.1%).

The *mayor* of the municipality and the mayor of mayoralty, for settlements with population over 500 people, are elected directly by the population of the municipality for a 4-year mandate. This procedure is outlined in the Local Elections Act. The elections for mayor take place in two rounds, based on the majority system. The leadership of political parties and coalitions propose the candidates for mayors. Independent candidates can also run for mayor. The candidate who gains the absolute majority of votes in the first round, becomes mayor. A second round is organized if none of the candidates has been elected. The second round takes place a week after the first round and only the first two candidates may participate. The candidate who gains the most votes becomes mayor.

The mayor nominates and the municipal council elects, in a secret election, one or more deputy mayors for the municipality. The municipal council is based on the nomination of the mayor elect, by the secret vote of the mayors' representatives. The mayor's representatives are elected by the municipal council to represent the mayor in settlements with populations below 500 people. Legislation says that the powers of the mayor's representatives should be determined by the Regulations for the operation of the municipal council and the municipal administration, adopted by the municipal council.

In the local elections that took place at the end of 1999, 262 municipal mayors and 1,696 mayors of mayoralties were elected. Over 40 political parties and coalitions participated in the elections and over 20 of them are represented through the elected mayors and municipal councilors. The independent municipal councilors nominated

by committees form about 4% of the total number of municipal councilors. Over 15% of the elected mayors, were independent candidates.

The election rules in the country are valid for all municipalities, regardless of size. The only exceptions to this rule are the numerous mandates within the municipal councils, depending on the population size of the municipalities.

#### *Role of the Political Parties*

Political parties can participate directly or indirectly in the political life of the municipalities. The *direct participation* of political parties occurs during the election process, in which the political parties form election lists and perform election campaigns. The *indirect participation* of political parties in the municipal policy is enacted through: the municipal councilors; groups of municipal councilors united on party principles; the chairperson of the municipal council (who is usually the representative of the party with most members in the municipal council); the statutory committees in the municipal council (if the party has a majority in them); the mayor of the municipality (if he/she has been nominated by a certain political party). The participation of political parties is more active in large and medium size municipalities.

The relationship between the mayor and the local leaders of political parties is mainly connected with the executive activities. Problems may occur when the mayor belongs to one political party and the majority of municipal councilors come from another party. Legal prerequisites exist that state the mayor should resign when 2/3 of the municipal councilors vote against him. The law forbids the mayor, the deputy mayors and the mayor's representatives to participate in the leadership of political parties and/or to participate in any commercial activities.

### 1.2.5 Allocation of Functions Among Tiers of Administration. Reforms Affecting Allocation of Functions. Inter-Municipal Disparities in the Scope of Local Services

The public sector in Bulgaria consists of three government tiers: central, regional and local. The regional level comprises of 28 administrative diluted units of the central government that do not provide public services. Their main responsibilities consist of managing state property in the respective region, coordination of regional units of the line ministries, preparation and execution of the National Plan for Regional Development, etc. They do not have revenue raising authority, nor their own budget. So, in terms of service provision responsibilities, they cannot be included into the study.

Public services are organized in nine major functions, each of them containing a number of activities. The central and the local governments provide services in each of these functions, as the ratio of their shares in the consolidated public expenditures varies for the different functions. Local governments spent around 18% of total public expen-

ditures (i.e. 70–55% of the public expenditures) in education for years 1990–2000, 75–42% in health, 5–8% or above in social assistance, 40–65% in housing, etc.

The main public services have three functional features:

- 1) Prevailing state services—administration, defense, public order and security, social insurance and social care, economic activities, etc.
- 2) Prevailing municipal services—housing and public utilities.
- 3) Mixed services—education, health and culture.

Serious changes in the amount, and the share of, municipal expenditures have been documented in two functions—education and health. In the first half of the 90s, the municipalities financed about 70% of the educational expenditures. In the recent years, this share dropped to 55–57%. The change was caused by the fact that the expenditures for the secondary professional schools and the schools for disabled children began to be financed by the state.

There is a similar trend in health care. The reason in this case was the gradual introduction of the health insurance system, which begun in 1999. By the end of the health care system reforms in 2003, municipal expenditures are expected to be about 15% of total public expenditures.

The state and the municipalities share the expenditures for cultural affairs and the municipalities have a relative level of independence in decision-making.

The municipalities presently perform 56 main types of activities through which they provide local services for each of the nine function areas. There is no municipality engaged in all 56 of the activities. Table 4.10 presents the number of activities provided by the various municipality groups.

*Table 4.10*

Number of Local Services Provided Based on the Size of Municipalities

Municipality Groups	Municipalities [Number]	Services [Number]	Share from All Services [%]
Group 1	1	48	85.71
Group 2	20	34	61.07
Group 3	39	25	44.60
Group 4	110	18	32.81
Group 5	92	13	23.80
Average	262	19	33.76
Total	262	56	100.00

The greatest number of public services—48—is provided in Sofia. This number decreases with each group, extending down to a total of 13 services for the muni-

palties with populations below 10,000 people. Two factors most influence the number and scope of local services:

- The territorial distribution of public institutions with regional importance—schools, boarding houses, hospitals, etc.
- The specific features of the various types of municipalities and the specifics of their population—urban/rural, daily flow of passengers, main business, etc.

### 1.2.6 Financial Resource Structure

The main sections of revenue going to municipal budgets are:

#### A) *Intergovernmental Transfers*

These are formed by two main sources—subsidies and shared taxes. Table 4.11 presents the role of these sources in the formation of local budget revenues.

*Table 4.11*  
Share of Intergovernmental Transfers within the Local Budget Revenues [%]  
(Total Revenues=100%)

Revenue items	1996	1997	1998	1999	2000
1. Total intergovernmental transfers	78.80	90.32	82.83	76.79	79.03
of which: Subsidies (net)	32.75	34.79	36.61	35.92	40.66
Shared taxes	46.05	55.52	46.22	40.87	38.37

The intergovernmental subsidies are general purpose and target subsidies. In recent years, they increased the share of the extraordinary subsidies allocated during the fiscal year. Most of these subsidies are accounted for as general purpose subsidies but, in practice, they are granted with detailed guidelines for utilization.

The municipalities receive part of their revenue from state (shared) taxes. The most important shared taxes are:

- the personal incomes tax (PIT), the revenue from this tax is allocated 50% for the local budgets and 50% for the central budget, and
- the corporate incomes tax (CIT), municipalities receive 10% of the taxable profit generated by companies.

#### B) *Local Revenues*

These are gathered from three main sources: local taxes, local fees and other local revenues (such as local activities—rents, sales, sanctions, interests, confiscation, leftovers, etc.). Table 4.12 presents the structure of these local revenues.

*Table 4.12*  
Structure of Local Revenues [%]

	1996	1997	1998	1999	2000
Total local revenues	19.27	9.36	15.86	18.19	17.47
Local taxes	5.36	2.03	4.95	4.43	4.40
Local fees	4.85	3.16	6.21	6.13	6.69
Other local revenues	9.07	4.16	4.70	7.63	6.38

Since the 1998 local tax reforms, the share of local tax revenues has been decreasing (the municipalities have no power to determine their share); the share of local fees has slightly increased (the municipalities have limited powers to determine their share); the share of the rest local own revenues (in which the municipalities have full power to influence) has increased significantly.

### *C) Borrowed Funds*

These are revenues from the issue of municipal bonds, loans from financial institutions, interest-free loans from the central budget, loans between the municipalities and loans from off-budget funds. Yet, they are not a significant source of revenues to the local budgets. In 2000, their share was 3.5%. In practice, 81% from the borrowed funds are used by Sofia and another 17% by the large municipalities in Group 2.

The distribution of local revenues by municipality groups in 2000, based on their size is presented in Table 4.13.

The data indicates:

- A U-form curve for distribution of all revenues per capita: with a significant disparity between the per capita revenues for Sofia and the rest municipalities; medium size municipalities having the lowest per capita revenues; and per capita revenue in the smaller municipalities higher in comparison to the larger municipalities;
- The levels of shared taxes, local revenues and borrowed funds decline with the size of municipalities;
- The intergovernmental subsidies increase when the size of municipalities decreases.

The data indicates that the high level of revenues in Sofia is mostly due to shared taxes. The small municipalities are ahead of the large municipalities in terms of revenues per capita, due to the large amounts of intergovernmental subsidies.

It is normal for small municipalities to receive more intergovernmental subsidies per capita. They must compensate for the shortage of funds caused by low fiscal potential and relatively low amounts of municipal property. However, the sky-rocketing

amount of total budget revenues per capita indicated for the municipalities from group 5, in comparison to the municipalities from groups 2–4, has no logical explanation. The municipalities from group 5, surely, finance fewer services compared to the other municipalities. The elevated amount of their necessary revenues could be due to: relatively higher municipal administrative expenditures compared to the large municipalities; services in these municipalities that are not so concentrated in the central settlement, used by less consumers, which makes them more expensive (calculated per capita); the unit costs for service production are higher—additional transport costs are needed, they have poor technical equipment, etc.

*Table 4.13*

Structure of Municipal Revenues in Municipality Groups for 2000 [%]  
(Average for the Country=100)

Groups	Total Revenues	Shared Taxes	Subsidies	Local Own Revenues	Borrowed Funds
Group 1	140.18	224.22	18.63	161.45	524.37
Group 2	93.93	95.36	88.60	112.34	48.25
Group 3	86.90	62.04	122.18	76.06	3.98
Group 4	91.58	71.75	127.30	70.40	6.03
Group 5	107.40	50.84	185.01	69.22	0.36
Average	100.00	100.00	100.00	100.00	100.00

## 2. ANALYSIS OF THE RELATIONSHIP BETWEEN LOCAL GOVERNMENT SIZE AND THE FUNCTION OF LOCAL GOVERNMENTS AND LOCAL DEMOCRACY

### 2.1 Local Government Size and Citizens' Satisfaction. Citizen Participation

#### 2.1.1 Citizen Participation

Citizens are able to resolve issues relating to the activity of the municipality and the public services it provides, but only within the competencies given to the municipalities. What is the scope of local competencies? According to one study<sup>8</sup>, all municipal

activity is divided in three groups based on the decision-making power of the local authorities—limited, shared, and full powers. “The data indicates that the municipalities actually manage slightly over 19% of their budget expenditures, as most of them (95%) are for current expenditures. It is alarming that the municipalities have little influence on labor expenditures, although they occupy over 45% of the total budgetary expenditures.”

The results from another study<sup>9</sup> say “Our conservative methodology has reached the conclusion that the fiscal burden of the expenditures for the mandatory services, as assigned by the central government to the municipalities, amounts to approximately 60–70% of total municipal expenditures”. The municipal powers of expenditure management prevail only in the categories of public utilities, culture and economic activities.

In the conditions of financial shortage the municipalities are forced to reduce expenditures, which increases the relative share of the mandatory expenditures compared to the expenditures, which the municipalities can influence.

The municipalities have even more limited powers to influence revenues. They are free to influence the amount of the so-called “other local revenues” and, within certain legal limits, revenues from fees and loans. This makes about 12–15% of all revenues going toward the municipal budgets.

It is evident that legislation limits the local possibilities for taxing the population, accumulating financial resources and making decisions on major issues related to the provision of local services. The municipalities provide a certain set of municipal services because they are obliged by law to do so and the citizens pay taxes and fees because they are also obliged to do so. The population cannot trace the link between the taxes that it pays to the municipality and the quality of services. Nor do the local governments assist in resolving existing problems. All this remains an obstacle for the creation of links between citizens and local governments.

All these statements are supported by the results of a sociological survey<sup>10</sup> conducted in three municipalities—a small municipality (Boichinovtzi), a medium size municipality (Berkovitza) and a large municipality (Montana). The citizens there are rather uninterested in the workings of the local governments. They feel they are not, and are actually not, informed of the sources of local revenues and the local activities. The lack of interest and the unawareness increases with decreasing the size of municipality. So, for example, 30.2% of the population within the large municipality declared that they were not interested in the workings of the municipality. For the medium size and the small municipalities, these percentages were respectively 40.9% and 44.8%. In the large municipality, 4.7% of the interviewed people have attended a municipal council session. These percentages are, respectively, 2.6% and 0.9% in the medium size and small municipality.

Between 60% (large municipality) and 80% (small municipality) of the population do not have any view about the question: “What strategy for local services would you support if there were a shortage of financial resources?” The majority of the people prefer the scope of services to be diminished and that payment should not be increased.

The population is also not aware of the scope of municipal powers. However, it supports the opinion that the municipalities should have certain powers to set local taxes and fees, although limited under the law. Populations from larger municipalities are more likely to support increasing local powers in comparison to populations in the small municipalities.

### 2.1.2 Citizen Satisfaction

Two categories of issues are analyzed:

- The work of the municipal administration and the municipal council; and
- The quality of local services provided. Four groups of services are reviewed—technical,<sup>11</sup> social, waste collection, and maintenance of infrastructure. The quality of services provided and the fees paid are compared.

The work of the municipal administration is generally better regarded than the work of the municipal council (the positive evaluations are 21.7% against 3% and the negative evaluations—10.1% against 21.7%). The share of people who abstain from evaluation is great (31.6% against 49.5%). Citizens from small municipalities give relatively better marks for the work of municipal administration and the municipal council. For example, the positive evaluations for the municipal administration in the direction “big>small” municipality are respectively 13.2%, 23.5%, 29.8%.

It is common within the three municipalities that the people are satisfied with the quality of the technical and social services provided and they are not satisfied with the quality of sanitation.

The quality of technical services is better regarded in the small municipality. The best evaluations are given for the services related to the issue and certification of documents, and poorer evaluations are given to the services related to construction—issue of construction permits and permits for trade. Only these services receive mostly negative evaluations in the large municipality.

Child-related services—schools, nurseries, kindergartens and camps, receive the highest evaluations among the social services. Social assistance and health care receive the poorest evaluations. The citizens of the smaller municipalities give the highest marks (average evaluations: 4.77—small municipality; 4.22—medium size municipality; 4.03—large municipality).

Evaluations of the situation of sanitation are extremely negative in all three municipalities. There are no significant differences among the municipalities.

The services related to street maintenance, street lighting, water supply and sewage are evaluated in a different way by the certain municipalities. Evaluations of the streets are negative in the three municipalities. However, the share of the dissatisfied drops from 73% in the large municipality, to slightly over 50% in the smallest municipality. No correlation between the size of the municipality and the quality of service is monitored for the other two services. So, for example, the quality of street lighting in Montana receives mainly positive evaluation. The street lighting in the other two municipalities receives extremely negative evaluations and the citizens say that such services simply doesn't exist. The quality of water supply is positively evaluated in the largest and the smallest municipalities, and negatively in Berkovitz, which possibly encounters difficulties.

The rates of the fees are generally evaluated as normal, except for the solid waste fee, which is considered high. The attitude towards the rates of the fees becomes more negative with increasing size of the municipality.

The general conclusion is that the citizens of the small municipalities are more satisfied with the local services.

## 2.2 Catchment Areas

Some important municipal services cannot be provided by all municipalities due to a number of historical and economic reasons. Nevertheless, the citizens should have equal access to them. Health care is a typical example of this. The health establishments network consists of various types of hospitals and polyclinics. Often times, the citizens do not have any choice but to visit the regional hospitals because they are the only providers of specific health services. In smaller municipalities (groups 4 and 5), one can receive ordinary health services (regular check-ups, maternity consultations, etc.). The regional hospitals provide more sophisticated services for a number of reasons—equipment, qualified doctors, etc.

The municipalities continued to finance the pre-hospital and hospital medical assistance, despite the progress of the health reforms of 2000. The territorial distribution of the hospital network and its staff also determines the concentration of health services. Table 4.14 presents data for three types of health care institutions providing health services—regional hospitals, municipal hospitals and social care nurseries, for all municipalities in 2000.

Great disparities exist in the share of health expenditures within total budget expenditures—8.4% for the smallest municipalities and 30.5% for the big cities. The disparities in terms of health expenditures per capita are even greater.

The per capita expenditures for the regional hospitals providing unique services amounts to BGN 33 in the big cities. Part of these funds are spent for servicing neighboring municipalities from groups 4 and 5, which actually do not make these expenditures for their population.

The situation with the municipal hospitals is similar. The group 3 and 4 municipalities pay 3–4 times more per capita than the smallest municipalities, and they also service their population.

Social care nurseries are concentrated in the large cities and the smaller municipalities, again, do not pay anything for the use of their services.

The Local Government and Local Administration Act has envisaged mechanisms for the horizontal cooperation of municipalities in the provision of certain services and correct distribution of the expenditures. In practice, there are no such examples except for some capital improvement projects of regional importance. The main reason is related to the intergovernmental transfers system, which forms a major part of the budget revenues for the small municipalities. The general subsidies from the central government, by design, create several disincentives for better use of the funds—if one or more local governments achieve better results in terms of cost savings the subsidy will be reduced in the next year, by the amount of these savings. We need to add here, that the severe budget problems in the municipal sector, as a factor in general, did not contribute to horizontal cooperation.

There are many examples when specific groups of patients are transferred to neighboring municipalities due to break down of specific medical equipment. The compensation to the affected municipalities is directed towards the central budget to correct relations with the municipalities (subsidy/contribution).

The methodology for setting the annual intergovernmental transfers contains an element, which allocates funds to the municipalities in the form of objective criteria, as each of them has definite weight. All of the three types of health institutions should bring more funds to the municipalities, in whose territories they are located. The main problem to this approach is the residual approach<sup>12</sup> for determining the subsidies. Another problem is the inability to react to changes in the provision of the service during the fiscal year. In the best case scenario, the affected municipality may expect to receive part of the funds no earlier than the next fiscal year.

There are some examples of joint actions amongst municipalities for optimization of the expenditures and increasing service quality. For several years the municipalities worked under the guidance of the Ministry of Environment and Waters for the joint construction and made use of 14 regional solid waste landfills. With this approach, the municipalities using one regional modern landfill, received 100% of the capital construction costs and shared the operational maintenance costs on the basis of objective indicators, like amount of waste deposited, number of citizens, etc. This policy stimulates the local governments to reduce capital costs for the

*Table 4.14*  
Municipal Expenditures for Major Health Services

	Total Expenditures [BGN]	Health Expenditures [BGN]	Share of Health Expenditures in Total Expenditures	Health Expenditures per Capita [BGN]	Expenditures for Regional Hospitals [BGN]	Expenditures for Regional Hospitals per Capita [BGN]	Expenditures for Municipal Hospitals [BGN]	Expenditures for Municipal Hospitals per Capita [BGN]	Expenditures for Social Care Nurseries [BGN]	Expenditures for Social Care Nurseries per Capita [BGN]
	2,005,805,394	413,861,239	20.6%	48	141,180,935	17	76,165,742	9	14,055,473	2
Group 1	432,057,881	61,267,239	14.2%	46	21,109,321	16	2,136,391	2	1,079,402	1
Group 2	665,421,711	202,973,788	30.5%	67	99,438,003	33	9,384,553	3	11,111,513	4
Group 3	352,539,372	79,988,489	22.7%	46	18,329,730	11	34,145,570	20	1,576,367	1
Group 4	412,866,504	57,611,737	14.0%	30	2,303,881	1	27,845,033	15	95,804	0
Group 5	142,919,926	12,019,986	8.4%	21	0	0	2,654,195	5	192,387	0

landfills and allocate more resources for improving the services within the city limits. They have a real interest in applying full-cost recovery with the solid waste fee and being more accountable to the taxpayers.

### 2.3 Relationship Between the Municipal Center and Individual Villages

On average, Bulgarian municipalities comprise of 20 settlements. The inter-municipal disparities vary from 134 settlements (Gabrovo municipality) to only 1 settlement (10 municipalities).

The municipal councilors are elected on the basis of the proportionate system. There are no electoral districts within the municipality that guarantee the representation of the certain settlements. This means that the representation of the certain settlements is not guaranteed by the local legislative assembly. For example, Razgrad municipality has a population of 71,000 people and 19 settlements—the city of Razgrad, the municipal center, and 18 villages. The municipal council of Razgrad municipality has 33 members—30 from the city of Razgrad and 3 from the villages. The population of the city of Razgrad constitutes 68% from the total population of the municipality, while its councilors total 91% of all municipal councilors. The other 3 councilors are from three, relatively large, villages within the territory of the municipality.

Mayors of the mayoralities are elected directly in the settlements with populations over 500 people. The municipal council then elects mayor's representatives for small settlements with populations below 500 people. These people are directly responsible for coordination with the municipal center.

The functions that the mayoralities perform, and their financial resources, are not clearly regulated by law. These issues are resolved by the municipal council, which means that different municipalities have different practices. However, observation confirms that the country's municipalities have very centralized structures. The municipality has a clearly outlined periphery (usually villages), whose problems are underestimated. If the example with Razgrad municipality is considered again—the municipal council makes all decisions concerning investment. The mayoralities have limited financial resources for operating needs. For example, 97% of the total municipal budget (13,131 thousand BGN for 2001) are managed centrally and go to the municipal center, while only 3% are allocated to mayoralities. The limited responsibilities and financial resources of the mayoralities cause certain pressures.

Some good practices are used for improving the interaction. For example, certain sessions of the municipal council and its committees can be conducted outside the municipal center. On specific days, the municipal administration may work in settlements outside the municipal center, etc. Nevertheless, there are certain problems

that can only be resolved by changing the Electoral system, i.e. the majority election of municipal councilors engaged with a certain election districts.

Legislation also envisaged another opportunity for ensuring better service to the population—the opening of municipal administration units, not only in certain settlements but also, in their neighborhoods. Due to the lack of funds and the extreme reduction in the number of municipal administrations, the municipalities do not implement this opportunity. The reduction of municipal administration staff is a result of requirements imposed by the central government.

The “municipality-mayoralty” relations were partially subject to two surveys of municipal decision-makers<sup>13</sup> (mayors and deputy mayors). The first survey was conducted in September 1997, immediately after the adoption of the two major laws regulating local finance—the Local Budgets Act and the Local Taxes and Fees Act. The second survey was conducted after the enforcement of these two laws in the period of May–June 1998. Both of these surveys covered 25 municipalities. The main results are presented below.

Most of those interviewed (72%) shared the opinion that the mayoralties should not be separated into independent municipalities and 20% stated that this was appropriate only in some cases. About 52% of those interviewed stated that the separation of the mayoralties, into independent municipalities, would contribute to the more successful resolution of local problems, and 28% thought that this would increase financial and administrative independence. About 16% of the interviewees didn’t see any advantages in separation. The main disadvantages to this were lack of staff (84%) and the unnecessary expansion of the local administration (68%). Only 20% of interviewees stated that it was necessary to give more power to the mayoralties and 68% stated that the mayoralties should be given more power only in some particular spheres. About 32% of those interviewed agreed that the mayoralties should be provided with more power in the administration of the revenue, and 64% stated that the mayoralties should be given more rights in the administration of expenditures. Many of the interviewees gave more than one answer, with 24% agreeing that the mayoralties should be given more power for management of the municipal property located in its territory.

It is obvious that the majority of local authorities have a negative attitude towards the subdivision of the municipalities, but at least a relatively big number of them are willing to give greater competencies to the mayoralties in some spheres although.

The second survey indicates that the opinion of the interviewees, towards separating the mayoralties in independent municipalities, has not changed and has, in fact, become even more conservative in some aspects. For example, 52% of those interviewed in the second survey didn’t see any advantages in this (16% in the first survey). About 76% of the interviewees stated that this would increase administration,

and 32% gave a new answer—this would impede the relationship between the municipalities and the central authorities. The share of those who didn't wish to give more power to the mayoralties increased from 12% to 28%. The other 72% of interviewees admitted the granting of more powers, again emphasizing that these power should concern the management of municipal properties.

It is evident that the number of local government representatives, who are not likely to support the idea of fragmentation of municipalities, is growing. The number of those, likely to give more competencies to the mayoralties, is also significantly lower. This means that the tense conditions between the municipal center and the periphery are deteriorating. The process of fragmentation in Bulgarian municipalities is limited only by its complicated procedures and the minimal legal requirements for settlements separation into separate municipalities.

In the last five years, seven new municipalities have formed via separation of settlements. What do these settlements gain or lose? Table 4.15 presents the main parameters of their budget performance for 2000. The following conclusions can be drawn:

- The fragmentation process covers mainly small municipalities;
- All mother municipalities have a level of socio-economic development below average, and unemployment rates above the average, for the country (except Rhodopi municipality). Newly established municipalities have parameters, lower than those of the mother-municipalities. The only exception is Primorsko municipality;
- The mother municipalities have lower revenues per capita than the newly established municipalities. The main reason for this is that the newly established municipalities receive significantly higher intergovernmental subsidies. The latter have lower tax potential and accumulate lower local revenues per capita. The only exception is Primorsko municipality, which is in a relatively better financial situation than the mother municipality.

Thus, the socio-economic conditions, in the newly established municipalities and their influence on the revenue raising capacity, are worse compared to the mother-municipalities. However, this is compensated by a number of advantages, the most important of which are:

- Elimination of the dependence on former municipal centers. The newly established municipalities constitute an independent municipal council and decide independently (within their legislative powers) upon their local problems;
- Increase of financial resources, which are no longer centralized in the former municipal center. The newly established municipalities receive relatively higher intergovernmental subsidies;

Table 4.15

Major Indicators for the Mother Municipalities (in gray) and the Settlements, Which Have Separated From Them and Formed New Municipalities

Code	Municipalities	Groups	Integral Indicator for Socio-Economic Situation	Rank	Unemployment Rate 31 Dec. 2000	Budgetary Revenues per Capita			
						Total	Shared Taxes	Subsidies	Local Revenues
5213	Tzarevo	5	28.01	81	25.61	340.94	61.15	140.41	131.57
5208	Primorsko	5	41.33	16	14.43	598.34	132.36	249.75	210.04
6612	Rhodopi	3	29.72	67	13.82	183.88	70.35	79.49	28.51
6605	Krichim	5	22.86	133	30.29	241.81	40.30	147.41	35.83
6608	Perustitza	5	20.83	166	31.71	374.61	39.87	259.10	57.45
6614	Stamboliyski	4	24.61	104	25.72	207.30	44.97	109.49	36.50
7318	Samokov	3	24.59	106	22.70	190.58	41.71	104.34	28.28
7306	Dolna Banya	5	18.65	210	29.86	186.18	12.20	132.36	21.45
7405	Maglizh	4	20.34	175	26.76	192.02	29.12	127.14	25.31
7402	Gurkovo	5	17.75	229	29.42	230.90	24.85	176.60	15.00
7406	Nikolaevo	5	15.32	252	30.94	248.40	13.36	206.64	12.70
Average- Bulgaria			31.34	47	17.86	236.57	90.77	87.30	41.32

As a result, the population in the newly established municipality begins to receive relatively more public services, more investment in local infrastructure, etc. It is important to point out that local leaders receive greater opportunities to contribute and the constitution of the municipal administration offers new job opportunities.

## 2.4 The Impact of Size on Unit Costs of Service Delivery

The present section reviews the features of provision of a selection of typical municipal services based on the size of the municipalities. The analysis is based on standard financial and non-financial data reported for 2000, which all municipalities are obliged to provide.<sup>14</sup>

The most straightforward, and easily interpreted, analysis on the impact of size on unit costs may be constructed on administrative services (Table 4.16).

*Table 4.16*  
Expenditures for Municipal Administration

	Expenditures for Administration [BGN]	Share of Expenditures for Administration in Total Expenditures [%]	Expenditures for Administration per Capita [BGN]
Total	153,010,895	7.6	17.9
Group 1	14,728,675	3.4	11.1
Group 2	38,459,778	5.8	12.8
Group 3	28,918,379	8.2	16.8
Group 4	47,723,351	11.6	24.9
Group 5	23,180,712	16.2	40.5

The table diagrams the municipal expenditures for administration, both executive (mayor's office) and for the city council. The share of these expenditures within the total municipal budget increases as the size of the local government decreases. There are mandated management functions that every local government must perform. So, in terms of budget effort, the smaller local governments pay more to share the resources available. This is partially due to the fact mentioned earlier that smaller local governments provide a smaller number of essential services and the composition of the municipal function area is different and size-sensitive. A similar pattern can be seen in the expenditures for administration per capita. Groups 4 and 5 spend more funds per inhabitant for the provision of similar services.

In the case of other services, interpretation of the data is much more difficult. The first reason is that not all municipalities provide all functions. For example, 10 municipalities do not provide sanitation services and nurseries are provided by barely over half (131) the municipalities. Secondly, real expenditures are often more dependent on the financial capacities of the local government than on unit costs differences. In the case of kindergartens, Sofia has above-average/per child spending, but it also provides more services to the children attending. On the other hand, the smallest municipalities group also has above-average/per child expenditures, but the main reason for this is the low number of children served (per institution) and the relatively constant operational costs of the institution.

In the case of secondary education expenditures/per student in Sofia, these are again above the national average. However, to interpret this fact, one needs to remember that Sofia is the only municipality which does not have arrears in payments. For example, it may turn out that the expenditures accounted in Sofia include salaries for 12 months, while in some other municipalities—it is for 11 months or even

less. Yet again, expenditures in the smallest municipalities are also above the national average, but this is due to the greater transport expenses for teachers and is necessary to ensure normal education process.

The per capita spending in big cities is also higher in the case of waste collection. The city of Sofia spends 5.5 times more funds per capita on waste collection than the smallest municipalities and 2.5 times more than the average for the whole country. This difference results from the combination of following factors: higher costs of waste transportation in big cities, wider scope of services provided (for example snow removal) and the quality of these services.

Available data does not allow precise measurement of the role of individual factors neither allow us to determine the real relationship between the size and unit cost using an assumption of the same scope and the quality of services. That is why we need to limit our firm conclusions in this section to basic administrative services.

## 2.5 Local Economic Development and Investment Policy

### 2.5.1 Local Economic Development

The Local Government and Local Administration Act does not contain explicit regulations for the municipal responsibilities regarding the local economic development. On the other hand, the municipalities are directly engaged in the provision of public utility services: water works, sewage, electrification, district heating, telephone service, maintenance of streets, squares, parks, gardens, correction of river beds, solid waste management, public transport, operation of municipal baths, laundries, hotels, garages and cemeteries (Article 11, point 6).

The National Regional Development Plan of Bulgaria was drafted in 2000. Every municipality participates in this plan, each with certain priority development areas that do not always coincide with the services listed above. The main disadvantage of the regional plan is that it is not supported with enough resources. Practice indicates that the municipality is a natural center and an active participant in initiatives promoting economic development, particularly in areas of local importance.

The transformation of property in the last decade created a significant amount of municipal property mainly by separating it from the state property. The newly acquired property became a major instrument for the municipalities for influencing the local economic environment. There are three major ways for using the property to stimulate economic activity:

- Privatization;

- Right to construction on municipal land;
- Management of municipal property.

The total revenue from property form slightly over 3% of the total budget revenues for the municipalities. This percentage varies from 3.5% in the smallest municipalities to 5% for Sofia. The small share of these revenues is mainly due to the fact that the municipalities are not able to finance investments with these revenues. Due to the lack of balance in the local budgets during the recent years, all budgetary revenues are used for financing current expenditures. This is a reason for decapitalization of municipal assets.

The revenues from concessions are insignificant—below BGN 1 million. In 1999, the state deprived municipalities of the right to concession of the waste collection and transportation, as well as activities such as gas supply. For activities like water works and sewage, the municipalities do not own the companies providing the service and, thus, the powers for giving concession cannot be used.

*Table 4.17*  
Revenues from Municipal Property in 2000

	Total Revenues	Revenues from Property	Share from the Total Revenues [%]	Sales	Share from the Total Revenues [%]	Concessions	Share from the Total Revenues [%]
Total	2,021,567,382	62,026,148	3.1	22,936,760	1.1	948,457	0.0
Group 1	438,768,511	16,983,911	3.9	4,043,915	0.9		
Group 2	667,448,676	21,819,823	3.3	8,090,104	1.2	237,698	0.0
Group 3	354,782,380	11,071,943	3.1	3,978,459	1.1	165,375	0.0
Group 4	416,506,013	9,251,620	2.2	4,726,426	1.1	422,550	0.1
Group 5	144,061,802	2,898,851	2.0	2,097,856	1.5	122,834	0.1

### 2.5.2 Investment Policy

Municipalities investment possibilities are restricted by law and their financial capacity has declined in the last 3–4 years. The annual state budget acts to limit the investment expenditures with which the municipalities can make their own revenues (up to 10% for 1998 and 1999, and up to 5% in 2000). The legal environ-

ment does not allow the implementation of successful bond issues. Commercial banks are unwilling to provide long-term financing to municipalities, due to their deteriorated financial state, the uncertain macroeconomic framework, and the impossibility to apply traditional bank instruments to the specifics of public finance.

Thus, the privatization revenues and the target subsidies for capital investment become major sources for financing municipal investments. Table 4.18 presents data for the budgetary capital expenditures for all municipalities in 2000 and the subsequent target subsidies.

*Table 4.18*  
Local Budgetary Capital Expenditures and Target Subsidies  
for Capital Investment

	Total Expenditures [BGN]	Capital Expenditures [BGN]	Share of Capital Expenditures in the Total Expenditures [%]	Own Capital Expenditures per Capita [BGN]	Capital Expenditures per Capita [BGN]	Target Subsidy for Capital Investment [BGN]	Share of Capital Expenditures Financed with Target Subsidy [%]
Total	2,005,805,394	157,956,805	7.90	9.9	18.5	73,184,092	46.33
Group 1	432,057,881	87,268,774	20.20	53.8	66	16,037,060	18.38
Group 2	665,421,711	23,136,071	3.50	2.0	7.7	17,042,248	73.66
Group 3	352,539,372	15,406,082	4.40	0.8	8.9	14,064,816	91.29
Group 4	412,866,504	22,382,015	5.40	2.7	11.7	17,176,521	76.74
Group 5	142,919,926	9,763,863	6.80	1.6	17.1	8,863,447	90.78

The municipalities allocated almost 8% of their budgets to capital investment. For Sofia, this share was over 20%. The capital expenditures mainly include rehabilitation and purchase of assets. The finance of capital investment is particularly low in the big cities, which allocate 3.5% of their expenditures for capital investment. This is over two times lower than the country's average. This is rather alarming because these municipalities hold over 35% of the population and concentrate mostly on urban infrastructure. Other analyses points out that most of the municipal financial problems are concentrated in this types of municipalities.

The smallest municipalities spend twice as much on investment per capita than the municipalities from group 2, but their investment is financed primarily with target subsidies from the central government—91%. Capital investment within medium

size municipalities from group 3 is financed in the same way. At least Sofia relies on target subsidies from the central budget—slightly over 18%.

The study clearly shows the link between the economic and financial potential of the municipalities, and their ability to invest. Sofia is the only city which issued euro bonds, to use as the main source of investment funds. The potential for municipalities to have their own investment, without relying on target subsidies, clearly distinguishes two groups of local governments—Sofia and all of the others. Municipalities from groups 2 and 3 take most of the financial burden of the reforms and, as an obvious result, their investment capabilities are close to zero. Most of the large and medium size cities mostly rely on privatization proceeds to fund their investment programs. The current financial strain makes the importance of the budget investment funds insignificant. Small cities only spend on investment resources that which they receive from the central government.

## 2.6 Inter-Governmental Relations—Does Number and Size of Local Governments Influence the Nature and Efficiency of Negotiations with Central Institutions?

The municipal structures have a positive influence on the negotiations between the central government and the local governments. The Bulgarian municipalities are relatively large and have the relevant internal potential for effective development and provision of public services. On the other hand, there exist institutionally strong organizations within the local governments. These are the National Association of Municipalities in the Republic of Bulgaria (NAMRB), 10 regional associations of municipalities, professional associations of municipal officials—legal experts, financial experts, chief architects, secretaries, environmental experts, etc.

The legal possibility for administrative and territorial changes did not produce significant fragmentation of municipalities. The size of local governments favors effective interaction with central government institutions, as well as the performance of the reforms for particular areas. The intensity of certain problems, mainly related to the financial link between revenue and expenditure responsibilities, additionally motivates the local governments to unite in their efforts to speed up reforms.

On national level, the dialogue between the central government and the local governments is carried out between NAMRB and the relevant executive and legislative bodies.

NAMRB, originally founded by 1/3 of Bulgarian municipalities, now unites all municipalities in the country and enables them to have a stronger “voice” in their negotiations with the central government.

Regional associations of municipalities are successfully used for considering the specifics of each municipality, from the views of different parts of the country. These

associations are established on a geographical principle—municipalities from the Danube region, from the Black Sea region, the Rhodopi mountain region, the Stara Planina mountain region, etc. The capacity of the municipal employees' professional associations is used in the preparation of important municipal proposals. The program that forms general NAMRB positions, guarantees that this position should only include proposals reached with consensus. Thus, the initial stage of discussions includes a variety of ideas, while the final stage of discussions is limited to summary proposals supported by all municipalities.

The specific interests of the different municipalities by size are ensured through the *representation mechanisms*. All executive and working bodies of NAMRB are formed based on the equal representation of large, medium and small municipalities, and the relevant geographical and political representation. Thus, the Executive Board of NAMRB (which is elected by the General Assembly) has 28% representatives from small municipalities, 33% representatives from medium size municipalities and 33% representatives from large municipalities. The mayor of Sofia's municipality is also a member of the Executive Board of NAMRB.

Coinciding principles are followed in the drafting of all key proposals.

Presently, the specialized committees of NAMRB are the main standing forums for reaching agreement on different interests. Better mechanisms for considering the specifics of the small municipalities are still sought. The relative share of population living in these municipalities is very small—1% in municipalities with populations below 5,000 people, and 7% in municipalities with populations below 10,000 people. Nevertheless, these municipalities are 38% of all municipalities in the country. The main problems with these municipalities, as discussed in the negotiations, concern their capacity rather than the specifics of their powers.

The eventual fragmentation of municipalities may impede the conduct of negotiations in the following directions:

- Finding acceptable solutions for some of the very smallest size municipalities;
- Delay in coordination among municipalities for formulation of common positions;
- Use of the municipal fragmentation for political purposes;
- Winning or losing influence among the political parties in power;
- Threats of new centralization due to the rationalization that the municipalities have insufficient capacity;

No tendency for increasing the number of municipalities is observed. The municipalities started to develop good and motivated positions in their on-going negotiations with the central government.

### 3. DESCRIPTION OF THE NATIONAL DEBATES ON THE SIZE OF LOCAL GOVERNMENTS

In Bulgaria, two public political debates regarding the size of local government have commenced in the past ten years.

*The first political debate* began in 1990–1991, when the Constitution and the Local Government and Local Administration Act were drafted. This debate continued, with several interruptions, until 1995. It includes two significant steps. The *first step* was made after the democratic changes by the first National Assembly with the participation of some of its statutory committees, many members of parliament, members of government, experts and academia. The discussions concerned the size of the administrative and territorial organization of the country—tiers; types of administrative and territorial units; number; optimal size; mayors' basis powers, functions and responsibilities; election of the executive bodies, and other specific parameters. The debate aimed to visualize and define a concrete position regarding the development of local government. Further to this, several options for territorial organization were reviewed, including three government tiers—oblast, okolia, and municipality.

The discussions of the regions aimed at their fragmentation, which contradicted the vision for a three-tier organization. That is why political consensus for preserving the existent 9 regions and their territories was so quickly reached. Thus, no debate on the regions was held. Various division options were discussed for the other two tiers. Despite the compromise, which was reached with difficulty, the passing of the Constitution and the Local Government and Local Administration Act did not include the concrete establishment of the okolia<sup>15</sup>. So, for example, the Constitution approved two main administrative and territorial units: *oblast (region) and municipality*, but it assumed the possibility that “other administrative and territorial self-government units in them can be established within the law.” The Local Government and Local Administration Act regulate the structure and the operation of the municipalities and the regions. The country's administrative and territorial division had to be enacted through a separate law. No administrative changes have been made in the recent years because the procedure is very complicated and contains many limitations.

The *second step* in the public debate for development of the country's administrative and territorial organization was made in the period between 1994–95, when the administrative reforms began. This step aimed at resolving several important issues related to development of the country's administrative division and the further improvement of local government regarding:

- Government tiers and major administrative units;
- Territorial division of the large cities;
- Procedures for establishing, transforming and shutting down administrative units;

- Spheres of activity and competency within particular administrative and territorial units;

As a result of the debate:

- Consensus was reached to eliminate the legal possibility of establishing intermediate tiers between the oblast and the municipality—okolia. The primary reason for this was the small size of the country and a willingness to preserve the size of the existing municipalities;
- The adoption of the Act on Administrative and Territorial Division of the Republic of Bulgaria created a legislative basis for the establishment of administrative and territorial units, considering it the will of the people. Agreement was reached for preserving the present status, number, scope and territorial coverage of the existent territorial structures. The performance of concrete administrative and territorial changes was based on “equal start” and uniform legal provisions for the creation of, and changes in, a particular territorial unit; and clear technological procedures for performance of necessary activities and democratic rules for participation of the population;
- Explicit conditions for creation of new municipalities were introduced, which strengthened the model of strong and stable units. Procedures for relatively limited changes in the size, coverage, and number of municipalities was created. Thus, 8 new municipalities have been created in the last six years. The need for legal and organizational measures led to the introduction of concrete principles and criteria in defining the conditions, procedures, and mechanisms for making changes, drafting of alternatives, discussing and evaluating these alternatives and selection of acceptable solutions. Opposition to concrete legal proposals and working assumptions came from various directions. The main opponents were specific central administration units, certain local elected representatives and citizen groups. Restricting the right of free choice, by raising the requirements for creation of new municipalities, was confronted with the argument that lower limits would assist individuals purely with leadership ambitions or ambitions caused by personal conflicts at the local level. The objections concerned the lower limit, minimum number of population for establishment of municipality, as well as the possible exceptions from the general procedure. The objections of the political parties were not so strong. In fact, the differences mainly had a technical character and the opposition actually concerned procedural and other issues. The adopted Act on Administrative and Territorial Division of the Republic of Bulgaria regulates not only the changes in the municipalities, but also the changes in their component units (mayoralties and districts) and the primary unit—the settlement.

- The territorial division of the capital city, Sofia, and the cities of Plovdiv and Varna were based on the special law. Regulations were created according to which the cities with population above 100,000 people can have internal division and that the municipal councils can decide upon this.
- The debate on the regional self-government tier did not take place.

*The second debate* was held between 1998–99. It was completely dedicated to the reorganization of the regional tier. Resolution of these issues required the re-evaluation of the existent number of regions and their territories, development of the regional governor's powers, and its interaction with the established dilution of state administration units within the territories of the region. On the other hand, proposals for the introduction of self-government elements into the regional tier were not raised. The Local Government and Local Administration Act provides a general framework and concept for the organization and operation of regional tiers. It complies with the constitutional provisions which state that the regional governor is appointed by the Council of Ministers, not elected.

Public debate did not actually take place. The political debates on the number and size of new regions were conducted by the government with the participation of experts from the Council of Ministers, the National Assembly, and the Presidency. Although several options for changing the number and the size of the regions presently existed, the option was adopted by 28 regions (through fragmentation of the existent 9 regions), as it was considered “*flexible and responsible*” enough for making future changes. The main motives for fragmentation of the regions were related to the historical sustainability of the 28 units (long period of existence), larger operation in the interaction with the municipalities (the smaller regions comprise a smaller number of municipalities). Of course, political arguments also existed particularly regarding the control of the central government on the local level. Despite the shortcomings of this option like: fragmentation of resources; non-correspondence with the EU regions; significant increase of the current expenditures; etc., the National Assembly passed the relevant law in 1999. The strong opposition of some political parties represented within the parliament, many international and Bulgarian experts, and citizens did not influence this decision. The introduction of regional self-government tier was postponed for the future. Some attempts were made to limit the shortcomings of the adopted decision—e.g. the Regional Development Act provided the possibility for establishment of regional development council. The municipal councils of the component municipalities can appoint a section of the members in these councils. Six regions for planning (NUTS II, each including several present oblasti) were established to avoid fragmentation. These regions for planning can implement large regional projects.

Despite these attempts, the problems, related to the development and operation of the regions, remain without a permanent solution. The political powers did not reach any consensus regarding overall development, position, size and role of the regions. The issue of size and coverage of Bulgarian regions, and the model for their establishment and development as self-governing units, will have further development in the future. One reason for this is the new government's program (the Government of Prime Minister Simeon Saxcoburgotski, elected by the National Assembly in July 2001) and the parliamentary majority, which have declared their commitment to enhancing the decentralization processes, as well as their readiness for discussing the establishment of a regional self-government level.

The following summary conclusions can be made:

*Firstly:* The debate on the size, number, and territorial scope of municipalities and their component administrative structures has already concluded. Distinct legal regulations for the making administrative and territorial changes, corresponding to the will of the people, are being successfully implemented;

*Secondly:* The debate on the enhancement of decentralization and financial independence for local governments is now on the agenda. The proposals of the local governments, the NGOs, and the government programs all point in one direction. The discussion is more concentrated on creating concrete forms and phases of the local finance reform.

*Thirdly:* The creation of second, sub-national, government ties will be discussed in the next two or three years. The issues that should be discussed include; the number, the territorial scope, and the competencies of the regional level.

## 4. CONCLUSIONS AND POLICY RECOMMENDATIONS

### 4.1 Conclusions

The frequent changes in the regional tier and the relative stability of the municipal tier indicate that the central institutions are the active sector in conducting the administrative and territorial changes within the country. However, local initiatives have also manifested in the last five or six years, which have led to the fragmentation of four municipalities.

Significant disparities exist among the municipalities in terms of population. Certain relations between size, in terms of population, and the major characteristics of the municipalities are observed. So, for example, when the size of municipalities declines:

- The number of urban population declines, the demographic structure deteriorates and depopulation processes intensify;

- The territory of, and the number of, component settlements decline;
- The level of socio-economic development declines. Economic activity and incomes decline, unemployment grows, and social benefits per capita increase;
- The quantity of provided public services declines. This is mainly due to the services which are provided by the larger municipalities that serve the neighboring small municipalities;
- The municipal capacity for accumulation of its own revenues declines. Smaller municipalities become more dependent on intergovernmental subsidies;
- The amount of fees paid by the population, for the local services provided, declines.

Some local characteristics are in reverse relation to the size of local governments. So, for example:

- The satisfaction with the services is greater in the small municipalities;
- The per capita expenditures for the mass services—kindergartens and secondary education—increase when the size of municipalities decrease; the same is true for basic administrative services;
- The smaller municipalities have more investment expenditure/per capita. This is because targeted intergovernmental subsidies are mostly directed toward the smallest local governments. With some exceptions, the large municipalities' insufficient funds for covering current needs do not allow them to allocate significant own funds for investment, and the underdeveloped credit market does not yet allow the use of borrowed funds for investment. Nevertheless, the capacity to find capital projects with own resources increases with the increasing size of the local government.

Municipal councilors are elected on the basis of a proportionate system. No election districts exist in municipalities comprising of more than one settlement (these are 96% of all municipalities). This should guarantee the representation of particular settlements. This causes tension and center-periphery problems. This is also intensified by the centralized system of allocating the powers and the lack of powers in the settlements. Re-allocation of financial resources is performed within the municipality, which then deprives the peripheral settlements. The present local governments are also not willing to transfer more functions and financial resources to the mayoralties.

Fragmentation is observed in the small municipalities, where the center city is relatively equal to the rest of the settlements. This is a result of two factors: the legislative requirements for the establishment of a new municipality and the specific attitudes amongst populations in the certain settlements.

In the large municipalities, the municipal center is usually a big city whose gravitational impact on the peripheral settlements is relatively big. Most of the

population has migrated to the municipal center, making the neighboring villages relatively small in size. The populations, still within the villages, nevertheless use the city infrastructure and the services provided in the city. Thus, the villages become too dependent on the municipal center. Conversely, the peripheral villages are under-represented in the municipal council, based on their minute population. By adding their fragmentation, it is seen that the separation of villages and turning them into autonomous municipalities is less possible (in terms of local interests) and almost impossible (in terms of reaching the requirements for minimum number of separating settlements).

The conditions in municipalities with relatively smaller disparities in the size of settlements are absolutely different. The municipal center does not have the gravitational impact that a large city does on the rest settlements. They are all better represented in the municipal council and the centralistic policy meets greater opposition. The separation of settlements and formation of autonomous municipalities is a result of this opposition.

Presently, the complicated procedures and the legislative restrictions impede the stronger fragmentation of municipalities. The centralized system of relations between the central government institutions and the local governments also contributes to preserving the size of municipalities. The decentralization process would increase the scope of local powers. The advantages of settlements' separation in autonomous municipalities are expected to increase while other things hold equal. This would increase the centrifugal forces, particularly in municipalities, where the settlements are relatively equal to the municipal center. An eventual mass fragmentation of these municipalities would increase the inter-municipal disparities in national terms.

Legislation does not treat the municipalities differently in terms of their size and capacity to accumulate revenues and manage expenditures. All municipalities—large and small—have very limited power and influence on their revenues and expenditures.

The population cannot trace the link between taxes and fees, that which it pays to the municipality, and the quality of the services. The citizens are not informed of the workings of the local government. Meanwhile, increased activity by the local population is observed in several places where the local governments have the power to set fees and manage local activities. The critical attitude towards the sanitation, where the “solid waste fee—cleaning” link is direct and the population realizes it, is very indicative. It can be conditionally stated that the local governments in the small municipalities are closer to the citizens and consider their preferences more often.

The possibility for municipalities to conduct local economic policies is very limited. This is mainly done through municipal property, considering the present legislation. It is evident that larger municipalities have greater property revenues.

The relation between the size of local governments and their ability to conduct local economic policy is very controversial.

Small municipalities have small bureaucracies, which allows faster response time to the needs of businesses. Meanwhile, the property and territory of these municipalities are less attractive. Large municipalities have greater possibilities to provide favorable conditions, they have greater property and yet, sometimes, the complicated bureaucratic procedures will actually impede and even repel business.

## 4.2 Recommendations

Bulgarian municipalities are relatively large. This creates relative advantages, on which the social consensus for preserving their size is built. One municipality usually includes several settlements, one of which is its center. The internal contradictions in the municipality are provoked by the electoral system, which leaves some settlements un-represented in the local parliament and causes mayoralities to have reduced powers. Proposals for resolving these problems are:

- Change of the electoral system. Moving from the proportionate system towards a majority system for the election of municipal councilors;
- Increasing the village mayors' powers. Fairer allocation of financial resources and transfer of the responsibilities for municipal property management. This does not require any legislative changes because the municipal council performs the allocation of powers and responsibilities among the settlements within one municipality.

There is also something to be done for the better representation of the various sized municipalities and the protection of their interests within the central institutions. Conditions should be created for considering the interests of the small municipalities. A special committee, under NAMRB, could be created for this purpose or quotas for small municipalities in the present committees could be provided. The establishment of a small municipalities' association could be another alternative.

The other issue worth considering is a change in the country's administrative and territorial division and the possible establishment of a second self-government tier on the level of the present administrative regions (28). The delegated state units are suitable to be concentrated on the level of the present regions for planning (6).

There are arguments which suggest that the intergovernmental subsidy mechanism for 2003 will be based on separation of power and the responsibility of municipalities for the provision of public services, financed from the municipal budgets. The amount of intergovernmental subsidies should add to the shared tax revenues and, thus,

finance the delegated municipal services. The new formula should also include equalizing subsidies for poor municipalities, formed in reverse relation to their tax capacity. Such a solution would help fill the shortage of local revenues in the smallest municipalities and compensate their higher costs of local services.

Elimination of legislative restrictions for local fee rates would, to large extent, resolve the problem of a catchment area, for those services consumed by the population of neighboring municipalities. The eventual establishment of a second tier of local self-government will create opportunities for delegating the provision of these services by the new tier of government.

The significant disparities in the capacity of local governments suggest differential treatment of the municipalities by the reforms aimed at fiscal decentralization and independence of local governments. The rational approach to this relationship is the transfer of power and responsibility towards the municipalities in a manner so that the differential disparities in government and resource capacity are considered. For example, the large municipalities are better prepared to undertake the responsibilities for administration (setting the amount and collection) of local fees and set the local tax rates. Access to greater financial resources, which they have, enables them to service relatively bigger investment loans. In this sense, the raising of the legal limit of investment from own source, and borrowed funds, will enable them to use their financial resources effectively. Later on, the small municipalities can also receive such powers when their capacity increases.

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NOTES

- 1 The CPI published by the National Statistical Institute is used as deflator.
- 2 Further on, it is referred to as region.
- 3 The capital city, Sofia.
- 4 The Government.
- 5 This is the latest data from the national census, March 2001. The other sections of the paper use data for the number of population from 31 December 1999.
- 6  $[(P_{\text{below}}-i/P_{\text{below}}-av) + (P_{\text{in}}-i/P_{\text{in}}-av) + (P_{\text{above}}-av/P_{\text{above}}-i)]/3$  , where:  
 $P_{\text{below}}-i$  — % of the population below working age in municipality  $i$ ;  
 $P_{\text{below}}-av$  — % of the population below working age average for all municipalities;  
 $P_{\text{in}}-i$  — % of the population in working age in municipality  $i$ ;  
 $P_{\text{in}}-av$  — % of the population in working age average for all municipalities;  
 $P_{\text{above}}-i$  — % of the population above working age in municipality  $i$ ;  
 $P_{\text{above}}-av$  — % of the population above working age average for all municipalities.
- 7 Analysis, evaluation and ranking of Bulgarian municipalities based on the level of socio-economic development in 2000, Annual Report of Club “Economika 2000”, 2001.
- 8 *Comparative analysis of the municipal powers and responsibilities, Report of LGI/USAID, page 57,1999.*
- 9 *Burden of the expenditures for ensuring mandatory services assigned by the central government to the municipalities in Bulgaria, Report of LGI/USAID, page 6,2000.*
- 10 *Enhancing the capacity of the local governments, through effective and accountable management, by improving the budget process, Club Economika 2000, 2000-2001*
- 11 *Services relating to the urban planing, the construction and other economic activities.*
- 12 The legal budget framework requires the central government to determine the amount of the general subsidy on the basis of the draft budgets of local governments for the coming year in order to substitute for the lack of own resources. Practice shows that the total volume of the subsidy is being determined according the current possibilities of the central budget and on the basis of generally underestimated tax revenues. As result, the municipalities receive portions of what they have requested.

<sup>13</sup> Ivanov St., *Local budgets in Bulgaria*, FLGR, 1998.

<sup>14</sup> We need to note that the data used does not reflect the fact that some expenditure for 2000 is not paid by local governments and, thus, are not reflected in the financial reports. On the other hand, these expenditures refer to the overall operation of the services monitored in the report. The way the unpaid bills are reported (by function area) does not allow for the necessary activity breakdown and usage in the recent study.

The impact of the unpaid bills on the financial situations of the five groups is different. The unpaid bills in the end of FY 2000 for Sofia represent 0.25% of the budget expenditures reported, which means that all of the municipal expenditures made are included into the financial statements.

For the municipalities from group 2 this ratio is 13%, for group 3–10%, for group 4–8% and for group 5–6%.

<sup>15</sup> Okolia—an intermediate tier between oblast and municipality.