

4 Avenues towards place-based regional policy and governance

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

New impetus for renewed multi-level governance for regional development

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

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

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

Bulgaria has defined new regional development priorities and regulations

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

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

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

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

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

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

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

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

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

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

Regional development policy can benefit from decentralisation

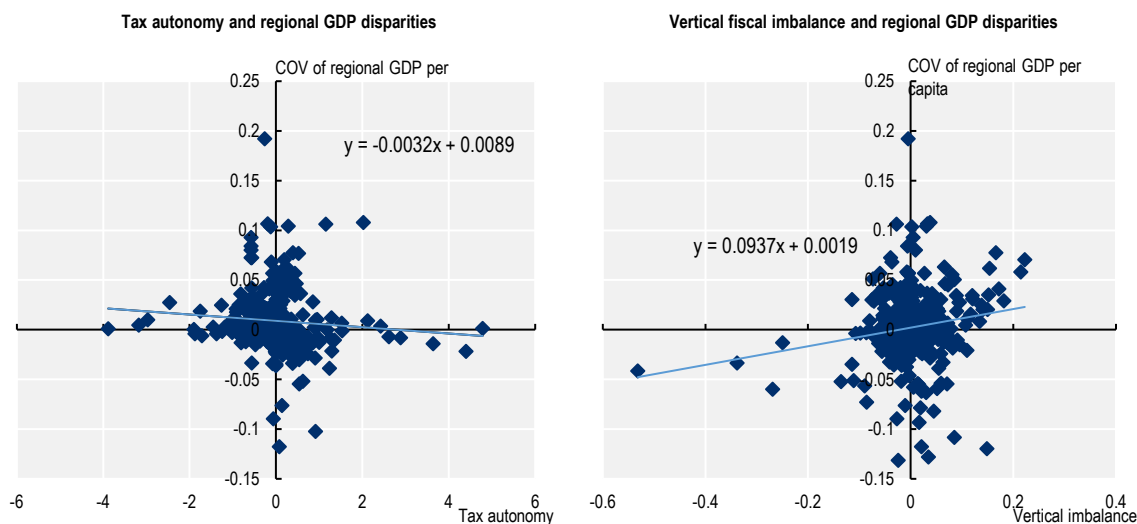
Making the most of decentralisation for regional development seems particularly crucial in the current context of growing “geography of discontent” and increasing divides between territories, in particular between places that have felt left behind by globalisation and technological change and those which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

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

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

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

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



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

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

Updating the 2016-25 decentralisation strategy

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

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

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

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

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

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

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

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

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

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

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

Box 4.1. Benefits and challenges of decentralisation

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

Table 4.1. Benefits and challenges of decentralisation

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

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

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

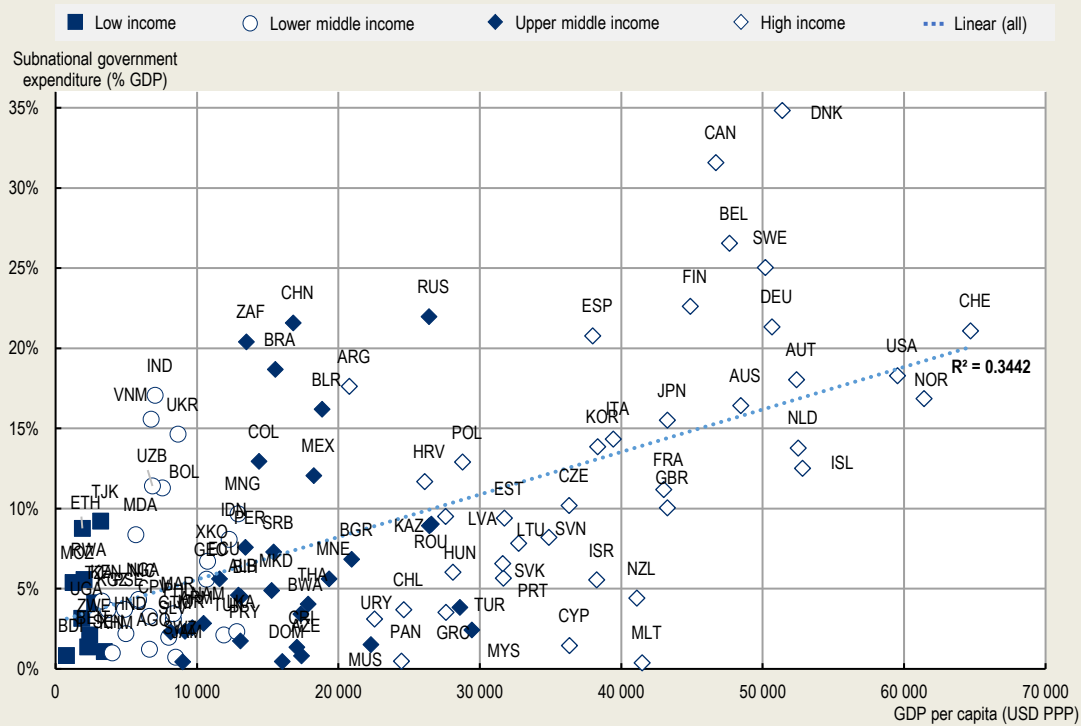
Mobilising and generating acceptance from central government civil servants through good communication practices, incentives and training activities are also key factors for success, as decentralisation reforms affect central government structures at ministerial and territorial levels and can be perceived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

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

Box 4.2. Decentralisation and GDP per capita

Although causal inference is not possible using the existing data, there is a clear association between decentralisation, measured by subnational expenditure as a percentage of GDP, and GDP per capita, suggesting that wealthier countries tend to be more decentralised and implying, by contrast, that centralised countries tend to be less wealthy.

Figure 4.2. Comparing subnational government expenditure as a percentage of GDP and GDP per capita, 2016 - Income groups



Note: Ireland and Luxembourg are not included on the graph as they represent extreme cases due to their high GDP per capita.

Source: Authors' calculations based on OECD/UCLG (2020^[10]), SNG-WOFI Database, www.sng-wofi.org.

Establishing a multi-level governance “forum” for decentralisation and regionalisation

Bulgaria could establish a multi-level governance forum to facilitate the participation and consultation of a variety of stakeholders, in order to reap the benefits of their knowledge and expertise and to overcome potential opposition to reform. Such a forum could include representatives of key ministries, planning regions, districts, municipalities and their associations but also other key stakeholders such as business and citizen associations, universities, non-governmental organisations (NGOs), etc.

Establishing an expert advisory committee could also allow for gaining political consensus across party boundaries. This may be also especially crucial to keeping the momentum for reform going despite changes in government. Several OECD countries have successfully implemented such expert committees, such as the CORA group in Spain, the independent Local Government Commission in New Zealand,

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

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

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

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

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

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

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

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

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

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

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

Conducting pilot programmes and experiments

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

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

Box 4.4. Experimental governance in Finland, France and Sweden

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

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

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

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

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

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

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

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

Revising the decentralisation strategy

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

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

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

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

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

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

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

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

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

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

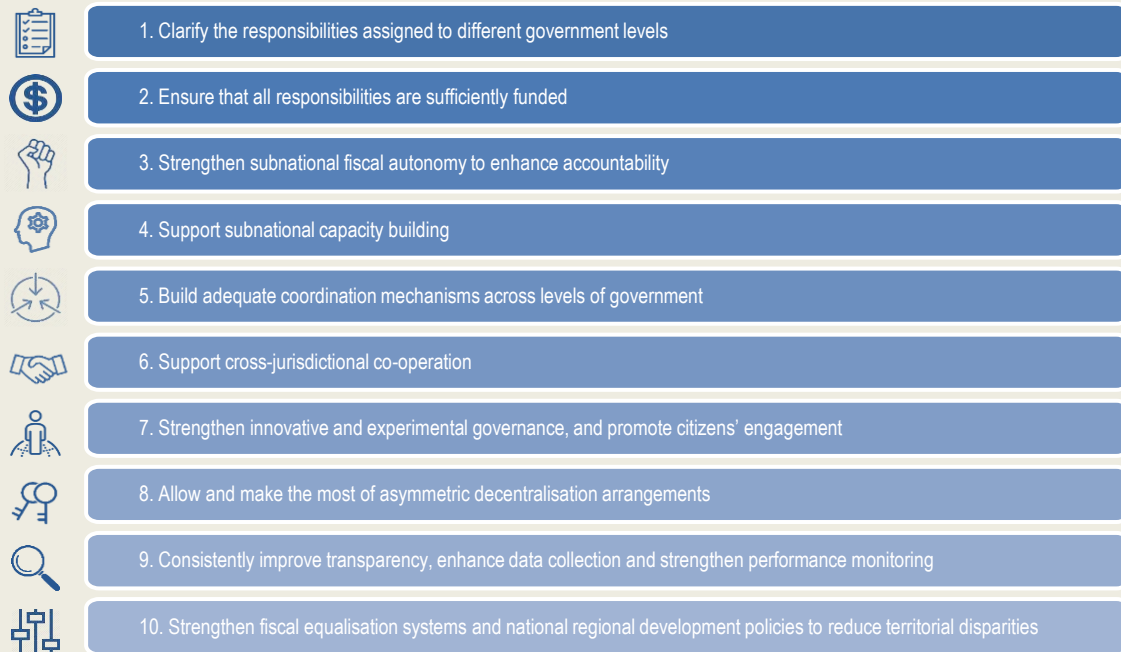
- **Rebalancing political, administrative and fiscal decentralisation:** Although present in the previous strategy, the three dimensions of decentralisation were not well balanced in their implementation. Fiscal decentralisation, in particular, remains a weak component of past reforms. As underscored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

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

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

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

Figure 4.3. The OECD ten guidelines for effective decentralisation

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

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

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

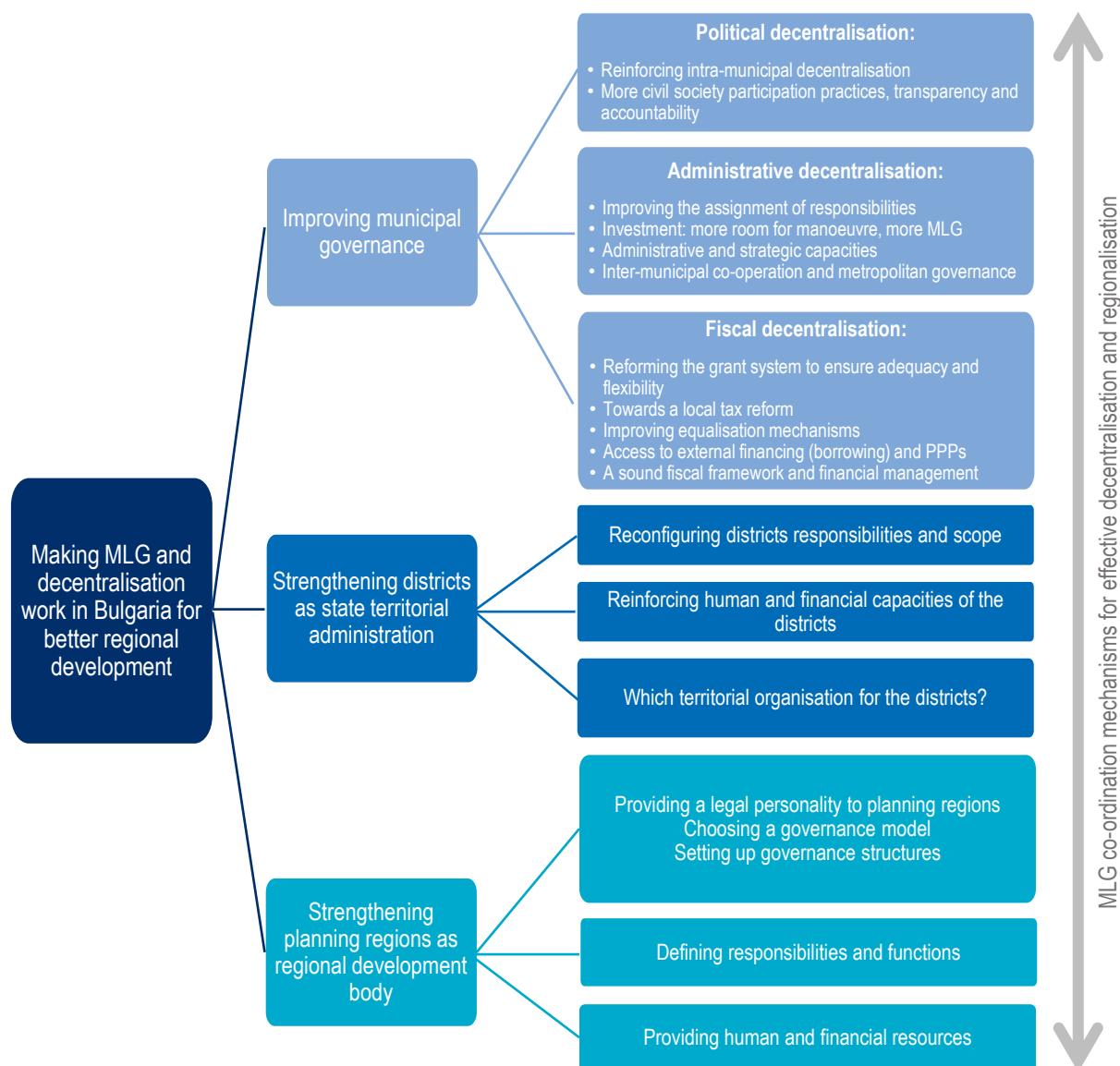
A comprehensive approach linking enhanced municipal and regional governance

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, OECD, Paris, http://www.sng-wofi.org/reports/SNGWOFI_2019_report_country_profiles_DEC2019_UPDATES.pdf; OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2020^[21]), *The Future of Regional Development and Public Investment in Wales, United Kingdom*, <https://doi.org/10.1787/e6f5201d-en>; Australian Government (2020^[22]), *National Federation Reform Council*, <https://pmc.gov.au/domestic-policy/national-federation-reform-council>; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2q9faa7-en>.

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

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

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

Box 4.9. Contractual arrangements for regional development: International experiences

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

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

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

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

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

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

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

Reinforcing intra-municipal decentralisation

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

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

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

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

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

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

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

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

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

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

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

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

Box 4.11. What is stakeholder participation?

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

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

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

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

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

Generating more effective administrative decentralisation

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

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

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

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

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

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

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

Experimenting with asymmetric administrative decentralisation

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

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

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

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

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

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

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

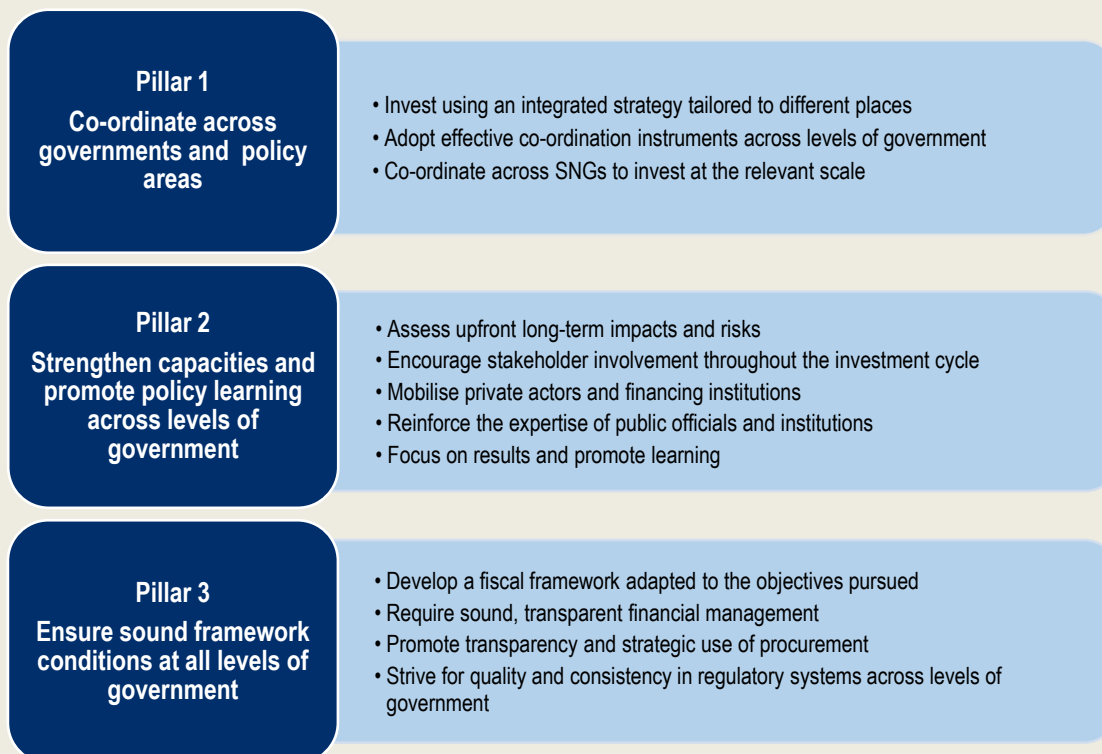
The OECD Recommendation could help Bulgaria to address systemic challenges for public investment in the context of its decentralisation and regionalisation reforms. All areas covered by the Recommendation are instrumental in ensuring effective public investment across levels of government for regional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

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

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

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

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



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

Improving municipal administrative and strategic capacities

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

Improving human resources development in Bulgarian municipalities

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

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

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

Enhancing the quality and efficiency of municipal services

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

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

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

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

Ensuring the effective use of internal and external resources with integrity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

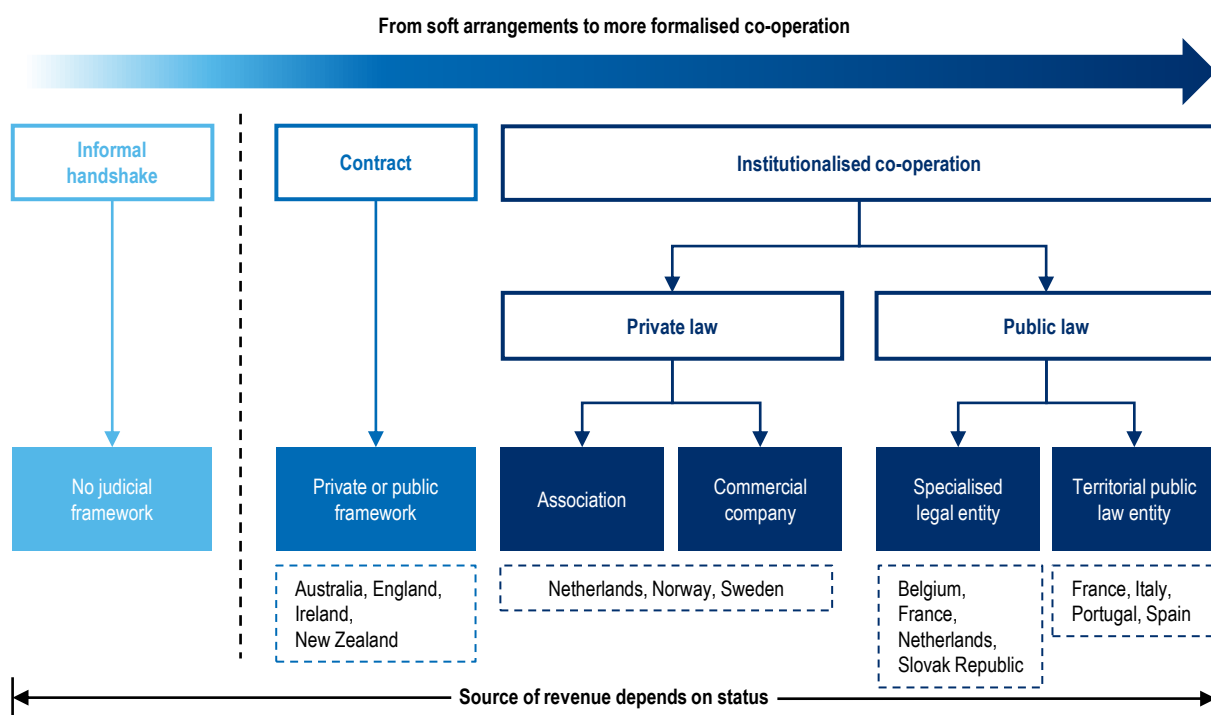
Seven mandatory responsibilities	Three mandatory responsibilities chosen from a list
Spatial planning	Environment protection – energy efficiency
Local economic development (economic activity areas, promotion of tourism, local trade policy)	Housing and living conditions
Travellers’ camps	Creation, development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

Source: OECD elaboration based on the NOTRe Law.

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

These experiments could be implemented according to the following principles:

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

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

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

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

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

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

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

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

Strengthening fiscal decentralisation and responsibility

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

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

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

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

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

Reforming the grant system to ensure adequacy and flexibility

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

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

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

Towards local tax reform

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Developing borrowing for public investment

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

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

Cautiously developing the use of subnational PPPs

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

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

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

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

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

Pursuing measures for better fiscal discipline and local financial management

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

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

Reforming regional governance to boost capacity and deliver regional development objectives

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

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

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

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

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

Why regionalise?

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

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

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

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

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

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

The prospect of entering the EU has had an impact on the transformation of subnational governance systems in CEECs. This transformation was led by the need both to modernise the public sector management and to adopt EU regional policy. Although the EU did not promote a particular model of subnational governance, accession to the EU has had an impact on local and regional governance, resulting in some convergence in multi-level governance systems and the implementation of common principles.

In all CEECs, the decentralisation reforms that have been conducted have been strongly influenced by EU standards: restoration of democratic institutions at the municipal level; development of local governance and financing systems; improvement of public services complying with EU requirements; setting up regional governance; and building EU statistical standards for administrative units (Nomenclature of territorial units for statistics, NUTS).

The strong link between decentralisation, regional development and EU structural and cohesion policy explains why the regionalisation process was so strong in several CEECs that were planning to join the EU. It led several countries to enact regional governance reforms, leading to the creation of planning regions, regional development bodies or self-governing regions to access and/or manage EU funds for regional development.

Source: OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>.

Achieving economies of scale in public service provision may be another strong incentive for regionalisation. A regional level can facilitate the provision of services and infrastructure of regional interest because it operates on a larger scale. Services typically provided at the regional level include: secondary and higher education; professional training; regional spatial planning; regional economic development and innovation; secondary healthcare and hospitals; social and labour market services; regional roads and public transport; regional promotion, culture and tourism; and environmental protection. These services benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (OECD, 2020^[80]). For public goods with strong local/regional externalities, the regional level has more local knowledge and can better match its policies with functional areas. The added-value brought by the regional level to foster co-operation among municipalities and

facilitate co-ordination between the local and national levels may also motivate the creation or reinforcement of the regional level.

Globalisation and other megatrends have reinforced the regionalisation trend. In fact, competing at the international and European level by highlighting regional assets and attractiveness may encourage the development of initiatives to enhance competitiveness and regional growth. Regions can also bring added-value to the strategic planning and regional development processes, which involve stakeholders from inside and outside the region, from the public and private spheres, and all levels of government. Regions may better target regional comparative advantages through access to local knowledge, compared to the national government or too-fragmented local governments. Through this role, regions can play a major role in increasing employment and productivity and driving economic growth at the regional and national levels. Finally, stronger regions facilitate co-operation with other regions and international and European levels and better compete on the global scene. Stronger regions can allow for more effective governance for cross-border or macro-regional projects.

The 2008 global financial crisis, and the subsequent fiscal consolidation measures, have had a strong impact on the regionalisation trend. In some cases, it has led to the creation of a decentralised regional level such as in Greece in 2011 (*Kallikratis* Reform) but also to the reinforcement or up-scaling of existing regions. In Finland, the objective of the planned regional reform (currently on hold) was to attain greater efficiency for public services (provided both by municipalities and central government) to bridge the EUR 3 billion sustainability gap, by upscaling and reducing costs.

The current COVID-19 crisis may also impact the regionalisation trend. The crisis shows that relying on an efficient regional level may help countries to cope with the varied impacts of the crisis and provide adequate policy responses for the economic recovery of territories. The post-COVID-19 economic recovery will require ambitious territorial approaches and governance models at the regional level. In several countries, calls are being made to strengthen the regional level and/or to make it more resilient and effective to act in times of crisis.

Table 4.4. Main drivers of regionalisation reforms

Broad policy drivers	Governance and management objectives	Solve current challenges
Political, socio-cultural and administrative concerns	<ul style="list-style-type: none"> Enhanced local democracy and transparency in decision-making and accountability through direct election of regional bodies Regional identity: preservation of historical, cultural, ethnic or linguistic characteristics at the regional level Redefining the role of the regions within the evolving multi-level governance framework 	<ul style="list-style-type: none"> Lack of recognition of the potential role of regions and/or regional identity Democratic deficit in case of “administrative regions” or regional associations of municipalities; less transparent decision-making process and accountability Impact on regions of reforms affecting other levels of government
Place-based policies for effective regional development	<ul style="list-style-type: none"> Regions have higher critical mass, more resources to implement effective regional development strategies, the ability to foster intra-regional co-ordination, inter-municipal co-operation, rural-urban linkages and to implement more integrated territorial planning Designing strategic regional development projects 	<ul style="list-style-type: none"> Lack of regional development strategies – strategies are either too fragmented or only top-down from the national government Need for improved spatial planning at the regional scale Lack of co-operation and co-ordination with the region (between municipalities, and between urban and rural areas) Over-fragmentation of projects funded by the EU
Economies of scale in public service and infrastructure provision	<ul style="list-style-type: none"> Economies of scale and improved efficiency of services and infrastructure of regional interest: health system provision, labour market services, public transport, infrastructure, etc. 	<ul style="list-style-type: none"> Fragmentation of responsibilities for public service delivery in many policy areas (infrastructure, transport, healthcare, housing, etc.)

Broad policy drivers	Governance and management objectives	Solve current challenges
	<ul style="list-style-type: none"> • Internalisation of spill-overs, better quality public service provision • Improved co-ordination between local governments and across levels of government 	
Competitiveness and regional growth	<ul style="list-style-type: none"> • Regions may better target regional comparative advantages through easier access to local knowledge, remedy to asymmetries of information • Ability to put forward regional assets and attractiveness to compete in a globalised world • Ability to favour synergies across sectoral policies (e.g. infrastructure, innovation, higher education, housing, labour market) • Ability to foster co-operation among various stakeholders, from within and outside the region, from the public and private spheres, and all levels of government • Co-operate with international/European regions and better compete on the global scene; more effective governance for cross-border or macro-regional projects 	<ul style="list-style-type: none"> • Lack of synergies across sectoral policies • Lack of co-operation across public and private sectors, and different stakeholders from within and outside the region

Source: Adapted by the authors from (OECD, 2019^[35]).

What kind of regionalisation reforms?

They are two main types of regional reforms: institutional and territorial. These are not exclusive and can be combined, which is often the case (Table 4.5).

Institutional reforms consist of creating a new regional level (elected or not) or modifying the responsibilities and resources of existing regional entities. As indicated above, motives behind the creation of new regional bodies or the redefinition of their responsibilities and resources may be political, socio-cultural and economic and, in many cases, a combination of these. Institutional reforms are often decentralisation reforms. Regionalisation and decentralisation were closely associated in several federal or unitary countries, such as Belgium, the Czech Republic, France, Greece, Italy, Poland, the Slovak Republic, Spain and the UK, that created or reinstated an elected regional level in the 1990s. Since then, regionalisation reforms have focused on delegating more powers to the existing regional level or strengthening their institutional capacity. These changes have been associated with reforms of subnational finance systems, to provide adequate fiscal capacities to bear these additional powers and responsibilities. However, in some instances, institutional reforms result in a recentralisation process.

Territorial reforms consist of modifying boundaries of existing regional entities to find the right scale for effective regional policies. Most of the time, it consists of consolidating regions through regional mergers. In many countries, the administrative boundaries of regional entities have been based on historical settlement patterns established many decades or centuries ago when the fastest means of transport was by horse and they have not been significantly revised in the interim. This is the case in countries like Austria, Japan, the Netherlands, Norway, Sweden and Switzerland, for example. These boundaries are now often outdated and do not reflect demographic changes, socio-economic relations and functional areas. This disconnect from the realities of today has motivated several regional remodellings to reach greater critical mass, such as in Norway where, since 1 January 2020, 11 larger regions have replaced the former 18 counties intending to strengthen the regions as functional units and to provide more coherent housing and labour market policies

“Pure” territorial reforms are very rare. Most often, they are carried out jointly with institutional reforms, such as in Norway where new responsibilities have been decentralised to the new larger regions

(Table 4.5). By contrast, institutional reform may be conducted without modifying regional boundaries, except when they consist of creating an entirely new regional level.

Table 4.5. Overview of regional reforms in EU and OECD countries from 1980 onwards

	Main regional reforms
Belgium	<ul style="list-style-type: none"> • 2001: Revision of the Constitution Special Act. Lambertmont Agreement providing regions with more tax autonomy, regulatory powers. • 2014: Transfer of additional responsibilities to regions (labour market policies, mobility and justice) and communities (family allowance, long-term care and healthcare); fiscal reform providing regions with more own-source tax resources).
Chile	<ul style="list-style-type: none"> • 1992: Adoption of an organic constitutional law creating a “mixed” regional government system with both deconcentrated and decentralised components, i.e. a regional executive (intendant) appointed by the President of the Republic and a regional council (CORE) indirectly elected by the municipal councillors. • 2009: New push towards decentralisation, especially through the constitutional reform establishing direct election by citizens of regional councillors, creating a democratically elected body to manage regional development (the first direct elections took place in 2013 and regional councillors took office on March 2014). • 2017: Law No. 20.990 of January 2017 created fully self-governing regions. The first regional elections of governors are to take place in 2021 (OECD, 2017^[6]).
Croatia	<ul style="list-style-type: none"> • 1992: Reinstatement of counties as self-government units with large autonomy. • 2009: Direct election of county governors.
Czech Republic	<ul style="list-style-type: none"> • 1997: Creation of the 14 self-governing regions (Act 347/1997). However, they were recognised as autonomous entities only in 2000 with the Regional Act No. 129/2000. • 2000-02: Transfer of responsibilities to the new regional tier: secondary education, regional roads, economic development and planning, health. The Local Finance Act 243/2000 defines the regional financing system based on tax sharing.
Denmark	<ul style="list-style-type: none"> • 2007: Abolition of the 14 counties which are replaced by 5 new regions. Their main responsibility is healthcare (management of the hospital system). Other responsibilities are advising the municipalities on spatial planning and regional development and organising regional public transportation and road subsidies, in co-operation with the municipalities. The 15 county prefectures (state administration) were transformed into 5 regional prefectures. • 2019: The political agreement to abolish the current elected five regions did not concretise with the charge of the government.
Finland	<ul style="list-style-type: none"> • 2019: The regionalisation project, that had been in the works since 2015 to be effective in January 2019, was abandoned in April 2019, due to political disputes that led to the resignation of the government.
France	<ul style="list-style-type: none"> • 1982-83: Act I of decentralisation: the creation of self-governing regions, with responsibilities to manage spatial planning, economic development, education (high schools) and vocational training. • 1986: First regional elections by direct universal suffrage. • 1988: Law specifying the regional economic development functions. • 2002: New transfers of responsibilities to the regions including regional passenger rail transport. • 2003-04: Act II of decentralisation: recognition of regions by the constitution; consolidation of regional responsibilities; right to experiment with several other responsibilities, e.g. heritage protection, seaports and aerodromes, environment (air quality and regional nature reserves), EU structural funds. • 2010: Territorial reform weakened the fiscal autonomy of the regions (loss of taxation power). • 2014: Regional mergers reducing the number of regions from 26 to 17 (of which 12 in mainland France, along with Corsica and 4 overseas regions) by the law on the delimitation of the regions (enacted in 2015). • 2015: Act III of decentralisation (NOTRe Law): clarification and strengthening of regional responsibilities in the areas of economic development, territorial planning, environment protection, vocational training. • 2018: Regions receive a share of the VAT.
Germany	<ul style="list-style-type: none"> • 2006: Clarification of responsibilities between the <i>Länder</i> and the federal government: reduction in the number of concurrent responsibilities, reduction of areas subject to Bundesrat veto; additional competencies allocated to <i>Länder</i> regarding economic activities and trade, education universities environmental protection, crime punishment, staff management; possibility for the <i>Länder</i> of opt-outs in six policy areas, introducing a degree of asymmetry into German federalism. • 2009: New financial arrangements concerning the system of transfers; introduction of the debt brake.

	Main regional reforms
Greece	<ul style="list-style-type: none"> • 2010: <i>Kallikratis</i> Reform creates 13 full self-governing regions with new responsibilities in the areas of regional planning and development including structural funds (transferred from the state regional administrations – prefectures). • 2018: <i>Kleisthenis</i> Reform (Law 4555/2018) touches upon various issues concerning regional governments, including the electoral system, regional councils and allocation of responsibilities across levels of government.
Hungary	<ul style="list-style-type: none"> • 1990: Act of Local Government restored the autonomy of counties. • 2011-12: Recentralisation process through the new 2012 Fundamental Law and the 2011 Cardinal Law on Local Governments. Counties lost several major competencies (healthcare inc. hospitals, social initiatives and secondary education) to be mainly in charge of regional and territorial development.
Ireland	<ul style="list-style-type: none"> • 2014: Abolition of the eight regional authorities (based at NUTS 3 level) by the local government reform. Their functions are transferred to three regional assemblies (established at NUTS 2 level).
Italy	<ul style="list-style-type: none"> • 1997: <i>Bassanini</i> Laws: implementation of the subsidiarity principle: all functions are transferred to the regions (and local authorities) except those listed in Law No. 59, which remain with the state. • 2001: Constitutional reform: regions (together with the provinces and municipalities) are enshrined in the constitution as autonomous governments and placed on the same level as the central government. • 2006: Rejection by a national referendum of the constitutional reform aiming at transforming Italy into a quasi-federal county. • 2009: Fiscal federalism law aimed at increasing fiscal autonomy at the regional level. • 2014: Indirect impact of Law No. 56/2014 on the regional level (this law abolished the provinces and established the metropolitan cities). • 2016: Rejection by referendum of the constitutional reform that aimed at clarifying the allocation of responsibilities between the central government and ordinary regions (abolition of “concurrent competencies” and recentralisation of several responsibilities, e.g. transport, labour, public finance and taxation).
Latvia	<ul style="list-style-type: none"> • 2009: Abolition of the 26 districts (self-governing entities) replaced by 5 planning regions (not as self-governing entities).
Lithuania	<ul style="list-style-type: none"> • 2010: Abolition of state counties and creation of regional development councils (not as self-governing entities).
Mexico	<ul style="list-style-type: none"> • 1992: Devolution of basic education to the states. • 1996: Devolution of healthcare to the states. • 1998: Reform of the National System of Fiscal Co-ordination. • 2007: Additional powers given to the states.
Netherlands	<ul style="list-style-type: none"> • 2002: Act of “<i>dualisation</i>”, separating composition, functions and powers of the deliberative council and the executive. • 2007-13: Decentralisation programmes transferred new responsibilities to provinces (cultural and archaeology heritage, spatial planning, economic development, provincial archives, nature policy and protection of threatened species, innovation policy). • 2014: Rejection by the parliament of a reform abolishing the provinces.
Norway	<ul style="list-style-type: none"> • 2002: Recentralisation of the responsibility for hospitals from the counties to the central government in the framework of the national healthcare reform. • 2003: New tasks granted to counties: spatial planning, regional development and innovation policy. • 2010: New tasks granted to counties: public roads, cultural activities, management of marine resources, operation of vocational schools and environmental protection. • 2020: Abolition of the 18 counties which are replaced by 11 larger regions, with new tasks such as the administration for national road networks. Other tasks and instruments will be allocated so that they become “stronger regional community developers”: cultural heritage protection, integration (immigrants), broadband development, fishing ports, research and innovation, business development, agriculture and forestry climate and environment, integration (immigrants), public health.
Poland	<ul style="list-style-type: none"> • 1999: Creation of 16 self-governing regions (together with that of intermediate level of counties), with responsibilities for tasks of “regional importance” (determined by law) mainly regional economic development, regional roads, spatial development but also healthcare, higher education and labour market policies. • 2007: Increased role of regions in regional policy, being fully responsible for 25% of EU cohesion funds (currently almost 60%). • 2009: New tasks transferred to regions: regional rail transport, waste and water management, and environmental protection.
Portugal	<ul style="list-style-type: none"> • Regions are enshrined in the 1976 Constitution but were not created. Only the islands of Azores and Madeira were granted special status as autonomous regions.

	Main regional reforms
	<ul style="list-style-type: none"> • 1998: Rejection by referendum of the draft bill creating eight self-governing regions.
Romania	<ul style="list-style-type: none"> • Current counties, in existence since the 15th century, were established in 1968. They have been reinforced by several decentralisation processes after the 1991 Constitution: 2001 Local Public Administration Act; 2006 Framework Law on Decentralisation. • 1998: Creation of 8 development regions at NUTS 2 level, in parallel to the counties, to co-ordinate regional development but they do not have an administrative status. • 2008: Direct election of the President of the County Councils. • A debate on creating larger regions is ongoing since the end of the 1990s.
Slovak Republic	<ul style="list-style-type: none"> • 2001: Creation of eight self-governing regions (also referred to as Higher Territorial Units), with responsibilities for secondary, professional and vocational education, social welfare, regional roads, public transport, regional economic development and territorial planning. • 2003-06: Decentralisation process confirmed by the Project of Further Decentralisation of Public Government. • 2005: Reform of the regional government fiscal framework (Act on Local Financing).
Slovenia	<ul style="list-style-type: none"> • 1990-2000s: Discussions on regionalisation reforms (the constitution provides for the establishment of self-governing regions by law). Several attempts and bills were prepared but never materialised. • 2008: Rejection by referendum of the draft bill creating 13 regions; however, voter turnout was low (10.9%). • 2009: Appointment by the prime minister of a Strategic Council for Regionalisation and Decentralisation; preparation of a new bill creating six regions but the project was abandoned in 2011 due to disagreements about the number, size, competencies and financing of the regions.
Spain	<ul style="list-style-type: none"> • 2000: Decentralisation of education to autonomous communities. • 2002: Decentralisation of health to autonomous communities. • 2006: Reform of autonomous statutes depending on autonomous communities. • 2009: Reform of the financing of autonomous communities (Law 22/2009).
Sweden	<ul style="list-style-type: none"> • 1997-2007: Experimentation of asymmetric regionalisation. No single model of regionalisation imposed but instead different options in terms of political representation (directly and indirectly elected) and responsibilities. • 2007: Report of the Committee on Public Sector Responsibilities, promoting the extension of the “pilot region” model providing counties with more responsibilities. Since 2007, Sweden has further extended the transfer of regional development competencies to county councils. • 2017: Attempt to reduce the number of counties from 21 to 6, which ultimately failed. • 2019: End of the gradual, experimental and asymmetric regionalisation process in Sweden carried out since 1997. All counties have the same governance structure (directly elected councils), including Gotland Island, a municipality with county responsibilities. There are now called “regions”.
Turkey	<ul style="list-style-type: none"> • 2005: The transformation of the 81 special provincial administrations (SPAs) into self-governing entities, with more powers. However, a dual decentralised/deconcentrated system remains in place, as provincial governors still have a major role as the head of the SPA’s executive committee.
United Kingdom	<ul style="list-style-type: none"> • 1998: Devolution process creating three devolved nations in Northern Ireland, Scotland and Wales with a directly elected “national assembly”/parliament and their own government and major competencies transferred to them. It created an asymmetric decentralisation across devolved nations (they do not have the same powers) and with England (no regional governments). • 2004: Regionalisation process in England suspended in 2004 following the rejection of a referendum held in the northeast of England. • 2007: Devolution restored in Northern Ireland. • 2010: Extension of the powers of the Welsh Assembly after the 2010 referendum. • 2012: Extension of the powers of the Scottish parliament by the Scotland Act 2012 (possibility to raise own taxes to come into effect in full in 2016 and introduction of a range of measures to strengthen the devolved administration in Scotland).

Source: Authors’ elaboration based on various sources including OECD (2017^[81]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2019^[91]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; OECD (2017^[6]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <https://doi.org/10.1787/9789264279049-en>.

What kind of regions?

Trends towards regionalisation take various forms, from deconcentrated regions to federated states, with different cases in between including co-operative regionalisation and decentralised regionalisation (see below for a typology of regional governance models in the OECD). As mentioned above, there is a general trend towards more decentralised regionalisation in Europe resulting in the creation of a level of elected administrative regions. In several countries, reforms towards the creation of self-governing regions are currently being discussed.

It is interesting to note that regionalisation can have very different implications for decentralisation: it can represent a form of decentralisation concerning central government but it can also generate centralisation at the regional level concerning local authorities; this situation is particularly common in some federal states (OECD, 2020^[5]).

Regionalisation may not be a uniform or homogeneous process

Within a country, there can be several forms of regionalisation depending on the problems faced by the country and its particular needs. This differentiation may also be the result of competition between different types of institutions to carry out regionalisation-specific operations (OECD, 2020^[5]). In the same country, one can find decentralised regions, state deconcentrated regions, planning regions or statistical regions that do not have the same scale or governance structures. Within the same regional level in a given country it is also possible to find regions with different political, administrative or fiscal powers. Asymmetric regionalisation is on the rise, both in federal and unitary countries (Box 4.19).

Different models of regional organisation have emerged in EU and OECD countries

Today, there are different forms of regionalisation in EU and OECD countries, ranging from soft arrangements to stronger regional governance. Each model has its own advantages and shortcomings. Additionally, several regional arrangements, for example, deconcentrated and decentralised regionalisation, may coexist within the same country, a situation which is quite widespread in the EU and OECD (OECD, 2017^[8]; 2020^[80]).

Four different models can be distinguished. The examples of these four models outlined below represent a snapshot taken at a moment in time as regional arrangements are not static and are constantly evolving, as underlined above. In parallel, some countries have established regional development agencies (RDAs), which offer an alternative or a complement to existing regional arrangements.

Box 4.19. Asymmetric regionalisation in the OECD

Asymmetric regionalisation means regions within the same country have different political, administrative or fiscal powers. There is greater convergence between unitary and federal countries towards differentiated governance at the regional level (OECD, 2019^[9]; 2018^[25]). In federal systems, asymmetric regionalisation appears to be more “natural”. In fact, asymmetry is often a basic characteristic of federations. There are, however, different degrees of asymmetry, with highly asymmetric federal systems (Belgium, Canada, India, Russia and Spain) and more symmetric federations (Australia, Austria, Germany, Switzerland, US). However, even the most “symmetric federations” have elements of asymmetry (e.g. US) or are developing some new ones. In Germany, for example, all *Länder* enjoy the same degree of legislative power and the same responsibilities but the 2006 reform also introduced opt-outs in six policy areas (e.g. higher education and environmental

protection) for them. This right to stray from federal legislation is an innovative new instrument for the *Länder*, introducing a degree of asymmetry into German federalism (OECD/UCLG, 2019^[76]).

In unitary countries, symmetry is often one of the leading principles of the unitary state (with unity and integration). However, some unitary states have strong elements of asymmetry, in particular, to recognise a different status of territories with a strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands and outlying regions (Finland, France, Portugal). For instance, in the UK, no less than three different types of regionalisation currently exist. In Italy, there are currently 5 regions (out of 20) with special constitutional status, approved by the Italian parliament. These five “special regions” (Friuli-Venezia Giulia, Sardinia, Sicily, Trentino Alto Adige and Valle d’Aosta) have broad legislative powers and considerable financial autonomy. In Sweden, asymmetric regionalisation was experimented with from 1997 until 2019. Today, asymmetric regionalisation is increasing in unitary countries to empower regions with greater capacities or to improve the governance of metropolitan regions.

Source: Allain-Dupré, D., I. Chatry and A. Moisis (2020^[36]), “Asymmetric decentralisation: Trends, challenges and policy implications”, <https://doi.org/10.1787/0898887a-en>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris; OECD/UCLG (2019^[76]), *2019 Report of the World Observatory on Subnational Government Finance and Investment - Key Findings*, <http://www.sng-wofi.org>; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD (2018^[25]), *Asymmetric Decentralisation: Policy Implications in Colombia*, http://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf.

Type 1. Statistical/planning regions

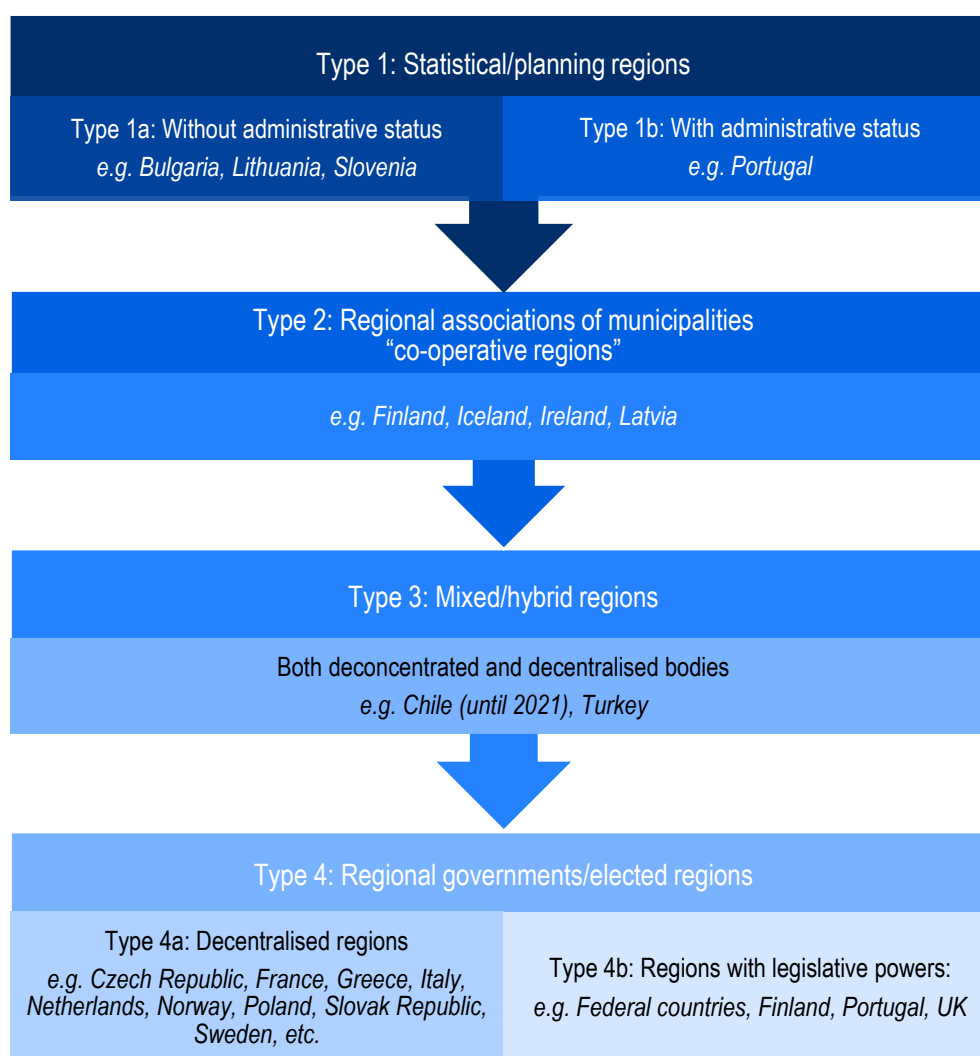
Statistical/planning regions (also sometimes called “development regions”) are a deconcentrated entity that is part of the central administration. There are two types of planning regions: statistical regions without legal personality (Type 1a) and statistical regions with a legal status (Type 1b). Both types share many similarities as regards their functions, limited autonomy and operating mode. The main difference between the two lies in the stability and accountability of the governance structure and the fact that statistical/planning regions with administrative status have greater autonomy over their expenditure.

Statistical regions without legal personality (Type 1a): They are territorial units established for statistical or planning purposes. Bulgaria falls within this group together with countries such as Lithuania and Slovenia, which also only have one level of self-government made up of municipalities.

Although statistical/planning regions have neither a legal personality nor a proper administration and budget, they may have representative bodies, such as a deliberative body (regional development councils, RDCs) and an executive body. RDCs may be comprised of representatives from local governments and social and economic partners. They are appointed not elected. In general, deliberative bodies have few powers and their main objective is to serve as a platform for discussion. They are not a permanent body but meet several times a year.

Their administrative capacities and functions remain limited and are mainly concentrated on spatial planning and regional development, identification of lagging areas and development programmes for these areas, identification of regional socio-economic development projects and distribution of some part of EU structural funds, as is the case in Lithuania. Slovenia is a unique case. While development regions have no administrative authority, co-ordination of regional development at the regional level is ensured by a network of different regional organisations, including regional councils (RCs also called councils of mayors), RDCs and RDAs. RDAs act as administrative, professional and technical agencies, supporting the work of the RCs and RDCs (Box 4.20).

Figure 4.7. Four different models of regional organisation in EU and OECD countries



Box 4.20. Two examples of countries with Type 1a regions: Lithuania and Slovenia

In Lithuania, it was envisaged in 2001 to create five self-governing regions that would replace and assume the functions of the ten counties representing the central government at the territorial level. After discussions lasting for several years, the project was abandoned and, instead, it was decided in 2010 to abolish the state counties and redistribute their functions among the municipalities and the central government. Counties have been replaced by ten RDCs, which serve as statistical units and deconcentrated entities of the central government. Placed under the direction of the Department of Regional Development of the Ministry of Interior, the RDCs are made up of municipality mayors (from all the municipalities belonging to that particular county), delegates from local councils and an authorised person appointed from the government or governmental institution. Since 2017, social and economic stakeholders are also represented on the RDCs and they must represent 1/3 of the membership of each council. RDCs do not have a legal personality nor an administration. Therefore, their administrative capacities and functions remain limited and are mainly concentrated on regional development planning, identification of lagging areas and development programmes for these areas,

identification of regional socio-economic development projects and distribution of some part of EU structural funds. RDCs are also considered as tools for co-operation. Lithuania is currently looking to reform this regional organisation for more effective regional governance.

In Slovenia, although the constitution provides for the creation of self-governing regions by law (Art. 143), there are no elected regions, though several bills were designed to implement this throughout the 1990s and 2000s. In 2008, a draft bill proposed to create 14 regions but was rejected by referendum. A new draft bill was then proposed to create six regions, following the opinion of a Strategic Council for Regionalisation and Decentralisation appointed by the prime minister. The project was also abandoned in 2011 due to disagreements about the number, size, competencies and financing of the regions. To manage regional development and EU funds, Slovenia has established, under the Act on the Promotion of Harmonious Regional Development, a system of 12 “development regions” corresponding to NUTS 3 units but no administrative authority was devolved to this level (OECD, 2010^[81]; 2011^[82]). To ensure co-ordination at the “regional” level (defined as NUTS 3 statistical regions) of regional development policy, three types of organisation have been established:

- 12 RDCs, which include representatives of municipalities, business associations, social partners and NGOs. They were created as a form of PPP for regional development.
- 12 RCs, which bring together all the mayors in a given region. They approve the most important documents, i.e. the regional development programmes and agreements for regional development.
- 12 RDAs that are in charge of preparing, co-ordinating, monitoring and evaluating the regional development programme, the regional development agreement and regional projects (Ministry of Economic Development and Technology of Slovenia, 2020^[83]). RDAs are public institutions since 2011 and serve as administrative, professional and technical agencies to support the functioning of the RDCs and RCs.

Since 2014, two development councils of the cohesion regions corresponding to Eastern and Western Slovenia (NUTS 2 level) have also been established. Establishing the second tier of local self-government bottom-up scenario is not currently on the political agenda. The current trend is to encourage inter-municipal co-operation as a mechanism for a more effective and efficient local service system and as an intermediate step towards regionalisation (Council of Europe, 2017^[84]; OECD/UCLG, 2019^[20]).

Source: OECD (2010^[81]), *Regional Development Policies in OECD Countries*, <https://doi.org/10.1787/9789264087255-en>; OECD (2011^[82]), *OECD Territorial Reviews: Slovenia 2011*, <https://dx.doi.org/10.1787/9789264120587-en>; Ministry of Economic Development and Technology of Slovenia (2020^[83]), *Promoting Regional Development*, <https://www.gov.si teme/spodbujanje-regionalnega-razvoja/>; Council of Europe (2017^[84]), “Local Democracy in Iceland”, <https://www.coe.int/en/web/congress/-/local-democracy-in-iceland>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>.

Statistical regions with a legal personality (Type 1b): These regions are territorial units established for statistical or planning purposes but, unlike Type 1a regions, they have legal status. In accordance, they benefit from an administration and their own budget. They also have deliberative and executive bodies, which are more permanent than in the Type 1a model.

The main example of Type 1b regions is found in Portugal. In 2003, Portugal established the five Commissions of Coordination and Regional Development (CCDR), at NUTS 2 level (Alentejo, Algarve, Centre, Lisbon and Tagus Valley, North). CCDRs are deconcentrated services of the central administration but, within the central government, the CCDRs have administrative and financial autonomy.

The organisational structure of the CCDRs is quite complex and comprises a president of the CCDR assisted by two vice-presidents, an administrative board, a single comptroller, a supervisory commission, inter-sectoral co-ordination council and a regional council. None of these bodies are directly elected and the president of the CCDR is appointed for a three-year term by the Portuguese government from a list of three names drawn up by an independent recruitment and selection commission following a competitive application. The CCDRs carry out important missions in the areas of the environment, land and town planning, and regional strategy development and implementation, including co-ordinating the deconcentrated arms of sectoral ministries at the regional level. In particular, CCDRs play a key role in the design and delivery of regional policy. One of their biggest responsibilities is to manage the regional operational programmes of European structural and investment funds in mainland Portugal for 2014-20. Their role has been reinforced in the most recent programming period as the share of funding for regional operational programmes has increased (OECD, 2020^[5]). There is currently a debate in Portugal to reinforce the role of CCDRs, by giving them more autonomy and more powers together with more accountability (Box 4.26).

Type 2: Regional associations of municipalities or “co-operative regions”

Type 2 regions are based on the co-operation of municipalities belonging to the same regional area. Four countries in the OECD have such a form of regional associations of municipalities: Finland, Iceland, Ireland and Latvia (Box 4.21).

Regional associations of municipalities have legal status and their creation needs the agreement of each member municipality. Across EU and OECD countries, regional associations of municipalities have different organisational structures, responsibilities and funding systems depending on the country. In general, they include RCs that consist of members elected by municipalities of the region and have a cabinet/office to conduct their activities. The tasks of the co-operative regional governments are often limited to regional development and spatial planning, EU funds management and some other tasks with clear region-wide benefits such as environmental protection or regional roads. However, as an inter-municipal organisation, they can also carry out tasks that are delegated by their members (e.g. waste collection or management of school offices in Iceland, and support co-operation and co-ordination between municipalities). They enjoy some decision-making autonomy on matters of regional jurisdiction. They have their own budget and are funded by municipal member fees. They can also receive central government transfers and EU funding.

Co-operative regionalisation can be seen as an alternative to full regionalisation but also as an intermediate stage towards full regionalisation (OECD, 2020^[5]), such as in Finland and Latvia (Box 4.21).

Box 4.21. Four examples of countries with “Type 2 regions”: Finland, Iceland, Ireland and Latvia

In Finland, 20 RCs have been established, over the entire territory, in application of the Act of 1994 on regional development. They are federations of municipalities created based on unanimous agreement among the comprising municipalities; they are not new local authorities; RC members are not directly elected but are elected by the municipal councils. Each council (excluding Åland) has an assembly and a cabinet, which is more involved in the daily routines of the council and running its activities. They have rather limited tasks, with two main functions laid down by law: regional development and spatial planning. The councils are also the regions’ key international actors and they are largely responsible for the EU structural fund programmes and their implementation (OECD, 2020^[5]; Council of Europe, 2017^[85]).

In Iceland, the six regional associations of municipalities, that have a legal basis since 2011, ensure co-operation and co-ordination between local governments at the regional level in many areas. They

also serve as a central government deconcentrated body. Since 2015, regional associations are in charge of preparing and implementing regional development plans for their regions, in line with the Iceland 2020 plan. In some cases, the regional associations have also been entrusted with special tasks from municipalities, e.g. waste collection and the management of school offices (OECD/UCLG, 2019^[20]).

In Ireland, there are three regional assemblies, created in January 2015 as part of the Local Government Reform Act 2014 (they replaced the previous eight regional authorities and two regional assemblies). The membership of a regional assembly consists of members of the local authorities within the region. The assemblies aim to co-ordinate, promote or support strategic planning and sustainable development and promote effectiveness in local government and public services. Their main function is to draw up Regional Spatial and Economic Strategies (RSES) (Citizens Information Board of Ireland, 2015^[86]). To enable regional planning and development, they also provide statutory oversight observations on city and county development plans and variations, manage regional operational programme funds and monitoring committees, provide support to the Committee of the Regions and Irish Regions Office in Brussels, promote co-ordination between EU, national, regional and local governance, and develop knowledge through research and evidence-based activities for implementation and monitoring (Bradley, 2019^[87]).

In Latvia, between 1998 and 2009, there were several proposed plans to abolish the 26 districts and replace them with between 5 to 10 larger self-governing regions that would have a wider range of responsibilities. A 2009 territorial reform finally abolished the districts but did not replace them with self-governing regions. Instead, it was decided to strengthen the role of the five planning regions created in 2002 by the act on regional development. In 2006, an amendment to the Regional Development Act granted legal status to the planning regions under public law (derived public entity). The current planning regions were established by a decision of the National Cabinet of 5 May 2009. Their organisational structure comprises three main bodies: the RDC (decision-making body), the Planning Region Administration (executive body), and the Cooperation Committee, which ensures the co-operation of the region with the different ministries. RDC members are indirectly elected by municipal representatives, acting therefore as a co-operative structure or “inter-municipal co-operation” body. The RDC elects its chair and executive director (head of the administration of the planning region). Planning regions’ responsibilities are established by law and they have their own administration, assets and budget. Their main objective is to ensure spatial planning, economic development, public transportation and management of investment programmes (including EU funds). They have mandatory autonomous competencies, voluntary autonomous competencies and competencies delegated to them by the national government. They also support co-operation between municipalities and different governmental institutions. Planning regions act under the supervision of the Ministry of Regional Development and Local Government per the Regional Development Law and the Territorial Development Planning Law but are not subordinated to the central government (Ministry of Environmental Protection and Regional Development of Latvia, 2020^[88]; Council of Europe, n.d.^[89]). In 2019, a new round of territorial reform began, based on the Conceptual Paper on New Administrative Territorial Division, putting the future of the planning regions up for discussion.

Source: OECD (2020^[5]), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, <https://doi.org/10.1787/fea62108-en>; Council of Europe (2017^[85]), “Local Democracy in Iceland”, <https://www.coe.int/en/web/congress/-/local-democracy-in-iceland>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; Citizens Information Board of Ireland (2015^[86]), *Regional Assemblies*, https://www.citizensinformation.ie/en/government_in_ireland/local_and_regional_government/regional_assemblies.html#a82be; Bradley, M. (2019^[87]), *Regional Spatial and Economic Strategy (RSES) for the Eastern and Midland Region*; Ministry of Environmental Protection and Regional Development of Latvia (2020^[88]), *Latvia’s Experience in Regional Development Territorial Reforms and Financial Support Measures*; Council of Europe (n.d.^[89]), “News 2018 - Local and regional democracy in Latvia”, <https://www.coe.int/en/web/portal/-/local-and-regional-democracy-in-latvia>.

Type 3: Hybrid/mixed regions (both deconcentrated and decentralised)

Type 3 regions are uncommon in the OECD, with only Chile (in a transition phase, see below) and Turkey categorised as having this form of regionalisation. In this model, regions have an executive body that is appointed by the central government and a deliberative body whose members are elected by universal suffrage.

In Turkey, for example, the deliberative body of the self-governing provincial administrations (SPAs) is the provincial council composed of members elected by direct universal suffrage for a five-year mandate. It is headed by a president, elected by and from among the members of the council. Each SPA has a provincial executive committee composed of ten members for one year. Five members are elected by the provincial council while the five others are appointed by the governor, who is appointed by and represents the central government.

In Chile, until the new Law No. 20.990 of January 2017 created fully self-governing regions, with first regional elections of governors to be held in 2021, regions were mixed entities with a regional executive (intendant), who had been appointed by the President of the Republic, and a regional council (CORE) with elected councillors but chaired by a regional governor (OECD, 2017^[6]).

Type 4: Elected regional governments

Elected regional government are the most widespread form of regionalisation in EU and OECD countries. This category encompasses two sub-types: decentralised regions (Type 4a) found in unitary countries; and regions with legislative powers found mainly in federal countries (Type 4b). They are as common in countries with three tiers of subnational government (France, Poland, Spain, United States, etc.) as in countries with two tiers (Australia, Canada, Czech Republic, Denmark, etc.).

Decentralised regions (Type 4a): They are found in unitary countries where strong regionalisation processes took place in the 1980s and 1990s (Table 4.5). Governance structures are based on a directly elected deliberative body (regional assembly or council) and an executive body, which can be elected by the regional council from among its members (France, Czech Republic, Denmark, New Zealand, Norway, Poland, Sweden) or which can be elected by direct universal suffrage (Croatia since 2009, Greece since 2011, Italy, Japan, Korea, Romania since 2008, the Slovak Republic). In several countries, some decentralised regions have dual status as a municipality and a regional government, carrying out both municipal and regional responsibilities, e.g. Vienna in Austria, Zagreb in Croatia, Prague in the Czech Republic, the German city-states of Berlin, Bremen and Hamburg, Oslo in Norway and Bucharest in Romania,.

Regional governments are a legal entity having their own budget, assets, administration and decision-making power. They enjoy some autonomy concerning their own functions and responsibilities. They have a “general competency” (even if their responsibilities can be strictly defined) as opposed to “special-purpose subnational governments” which have single or multiple functions (e.g. regional transport districts, water boards or sanitation districts).

Although the existence of “decentralised regions” reflects a certain level of decentralisation, not all countries have the same level of decentralisation. In several countries, decentralised regions have few powers, responsibilities and revenues for example, in Croatia, Greece, Hungary, Poland, the Slovak Republic and Turkey.

Regions with legislative powers (Type 4b): These regions are found in the nine OECD federal and quasi-federal countries but also in unitary countries that have autonomous regions, in particular Finland, Portugal and the UK. The executive and deliberative bodies are elected by direct universal suffrage and regional parliaments exercise legislative power in some areas (primary or secondary legislative powers).

In federal countries, sovereignty is shared between the federal government and the “federated states”, which have their own constitution (Canada is an exception), parliament and government (OECD, 2020^[80]). The self-governing status of the states may not be altered by a unilateral decision of the federal government. Powers and responsibilities are assigned to the federal government and the state governments either by the provision of a constitution or by judicial interpretation.

As for “decentralised regions”, the scope of autonomy of regions with legislative powers differs from one country to another. For example, federal countries are very diverse in terms of political, administrative and fiscal powers attributed to regional governments.

Responsibilities of Types 4a and 4b regions

The economic and social role of regional governments, measured by spending indicators, differs a lot across EU and OECD countries (Box 4.22). These variations across countries reflect the level of decentralisation at the regional level, in particular the distribution of responsibilities across levels of government and their type. The scope of regional responsibilities also depends on the number of subnational layers, e.g. if an intermediate level exists and carries out several functions of supra-municipal levels such as in France, Germany, Poland or the United States. Table 4.6 presents a general scheme of the breakdown of responsibilities across the subnational government levels (municipal, intermediate and regional) in countries with three subnational government levels. The scope of regional responsibilities also depends on the existence of a state deconcentrated level at the regional level, as state entities can perform some “territorial” functions.

Table 4.6. Breakdown of responsibilities across subnational government levels: A general scheme

Municipal level	Intermediate level	Regional level
<ul style="list-style-type: none"> • A wide range of responsibilities: <ul style="list-style-type: none"> ○ A general clause of competency ○ Sometimes, additional allocations by the law • Community services: <ul style="list-style-type: none"> ○ Education (nursery schools, pre-elementary and primary education) ○ Urban planning and management ○ Local utility networks (water, sewerage, waste, hygiene, etc.) ○ Local roads and city public transport ○ Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) ○ Primary and preventive healthcare ○ Recreation (sport) and culture ○ Public order and safety (municipal police, fire brigades) ○ Local economic development, tourism, trade fairs ○ Environment (green areas) ○ Social housing ○ Administrative and permit services 	<ul style="list-style-type: none"> • Specialised and more limited responsibilities of supra-municipal interest • An important role of assistance towards small municipalities • May exercise responsibilities delegated by the regions and central government • Responsibilities determined by the functional level and the geographic area: <ul style="list-style-type: none"> ○ Secondary or specialised education ○ Supra-municipal social and youth welfare ○ Secondary hospitals ○ Waste collection and treatment ○ Secondary roads and public transport ○ Environment 	<ul style="list-style-type: none"> • Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs. unitary) • Services of regional interest: <ul style="list-style-type: none"> ○ Secondary/higher education and professional training ○ Regional spatial planning and development (inc. management of EU funds in EU countries) ○ Regional economic development and innovation ○ Health (secondary care and hospitals) ○ Social affairs (e.g. employment services, training, inclusion, support to special groups, etc.) ○ Regional roads and public transport ○ Culture, heritage and tourism ○ Environmental protection ○ Social housing ○ Public order and safety (e.g. regional police, civil protection) ○ Local government supervision (in federal countries)

Source: Adapted from OECD (2018^[90]), *Practical Methodological Guide for the World Observatory on Subnational Government Finance and Investment*, OECD, Paris; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>.

Decentralised regions tend to have “specialised responsibilities” while the general clause of competency, or “subsidiarity principle”, applies more to the municipal level. Generally, regional governments are responsible for providing services of regional interest, which can benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (Kitchen and Slack, 2006^[91]; OECD, 2017^[6]; 2020^[80]). Typical examples include secondary/higher education and professional training, spatial planning, economic development, secondary care and hospitals, social services, employment services, regional roads and public transports, promotion of the region, culture and tourism, and environmental protection. In some countries, regional responsibilities are very focused on one or two areas, for example, health in Denmark and Sweden.

Regional governments also play a role in strategic planning and regional development (including EU funds management in EU countries), which involves stakeholders from within and outside the region, from the public and private spheres, and all levels of government.

Responsibility for regional development and EU management funds are not always the responsibility of decentralised regions. In some cases, these tasks are entrusted to other types of regional bodies, such as RDAs. A detailed description of regional responsibilities in decentralised countries is given in Annex A.

In many cases, truly exclusive competencies rarely exist; regional responsibilities are often shared with another institutional government level, be it central or local. Some tasks can also be delegated by the central government to the regions. With municipalities, sharing responsibilities is common around issues of transport and infrastructure, environment and water, culture and tourism, communication or economic development. Responsibilities shared with the central government are mostly found in the areas of education, economic affairs and transportation, public order, health, social protection, spatial planning and land use (Allain-Dupré, 2018^[92]; OECD, 2020^[80]; 2019^[9]).

Responsibilities of regions with legislative powers are quite extensive. In most federal countries, federal governments have exclusive and listed responsibilities (e.g. foreign policy, defence, money, judiciary system, etc.) while federated states have extensive competencies in many key areas including education, social protection, economic development, transport, environment, housing, public order (regional police), civil protection, regional development including the management of EU funds (in EU countries), etc. In all OECD federal countries except Spain (a quasi-federal country), local governments are governed by the states and not by the federal government. Local governments are considered “creations” of the federated states falling directly under their jurisdiction. In Spain however, this responsibility is shared between autonomous communities and the central government. Local government functions and finances are decided within the framework of the national law (Article 148 of the Spanish constitution) (OECD, 2020^[80]). In federal countries, there are also shared responsibilities (“concurrent powers” or “joint responsibilities”), either under constitutional or legislative mandate or simply in practice (Table 4.6). In particular, public investment is a shared responsibility across levels of government and specifically with regional governments, as acknowledged by the OECD Council Recommendation on Effective Public Investment Across Levels of Government (OECD, 2019^[43]).

As indicated above, the extent of regional autonomy can also be diverse among federal countries. For example, there are some discrepancies among federal countries concerning the scope of responsibilities of state governments. In Austria, for example, according to the constitution, large exclusive competencies are assigned to the federal government (public security, taxes, civil and penal law, industrial affairs, education, and healthcare) and the residual ones are assigned to the *Länder*, although Austrian *Länder* have the constitutionally guaranteed right to execute some federal laws in the areas of education, hospitals, social welfare, housing and urban development (OECD, 2020^[80]).

In unitary countries made up of regions with legislative powers, powers and responsibilities are very different from one country to another and even within the same country. Finland, Portugal and the UK are examples of asymmetric regionalisation. In Portugal, the Autonomous Regions of Azores and Madeira – also recognised as the outermost regions at the EU level – have a special status and legislative power.

Their legislative assembly is composed of members elected by direct universal suffrage while the President of the Regional Government is appointed by the Representative of the Republic according to the results of the election to the legislative assembly. They benefit from extensive legislative powers and define their own policies, except in the areas of foreign policy, defence and internal security (EU Committee of the Regions, 2020^[93]). In Finland, the self-governing region of Åland has a parliament elected every four years that appoints the regional Åland Government. Parliament passes laws in areas relating to the internal affairs of the region and exercises its own budgetary power (Ministry of Foreign Affairs of Finland, 2020^[94]). In the UK, administrative devolution took place in 1999, when Northern Ireland, Scotland and Wales had their own elected assembly and government. The powers and responsibilities of the three devolved bodies vary in nature and scope, as each devolution act was negotiated independently. The devolved institutions in Scotland and Wales have subsequently evolved and taken on greater powers, whereas the process has been more precarious in Northern Ireland, with devolution suspended several times over the 20th century.

Financing of Types 4a and 4b regions

Given their responsibilities, elected regions are in general key economic and social actors. This is reflected by their fiscal weight. According to the new OECD Regional Government Finance and Investment (REGOFI) database (OECD, 2020^[80]), regional governments play a significant role in public expenditure, accounting for 7.6% of GDP and nearly 19% of public expenditure in 2016 (based on a sample of 24 countries, including 9 federal countries). Regional governments accounted for 41% of total subnational government expenditure, i.e. including, in addition to regional governments, intermediate and municipal governments. On the revenue side, regional governments represented 7.6% of GDP and 19.3% of public revenue.

The fiscal weight of regional governments in EU and OECD countries, however, varies greatly between federal and unitary countries. The financial weight of state governments is generally higher than that of decentralised regions, although there is plenty of variation in this regard within both unitary and federal countries (Box 4.22).

Decentralised regions have access to various sources, including grants and subsidies from the central government (and the EU for EU countries), tax revenues, user charges and fees for services rendered and revenues from physical and financial assets. However, there is no one dominant model of financing. There are countries where regions are funded mainly through grants and others where they are mainly funded by taxes (shared or own-source taxation). As is the case among unitary countries, there is no one dominant regional funding model among federal countries.

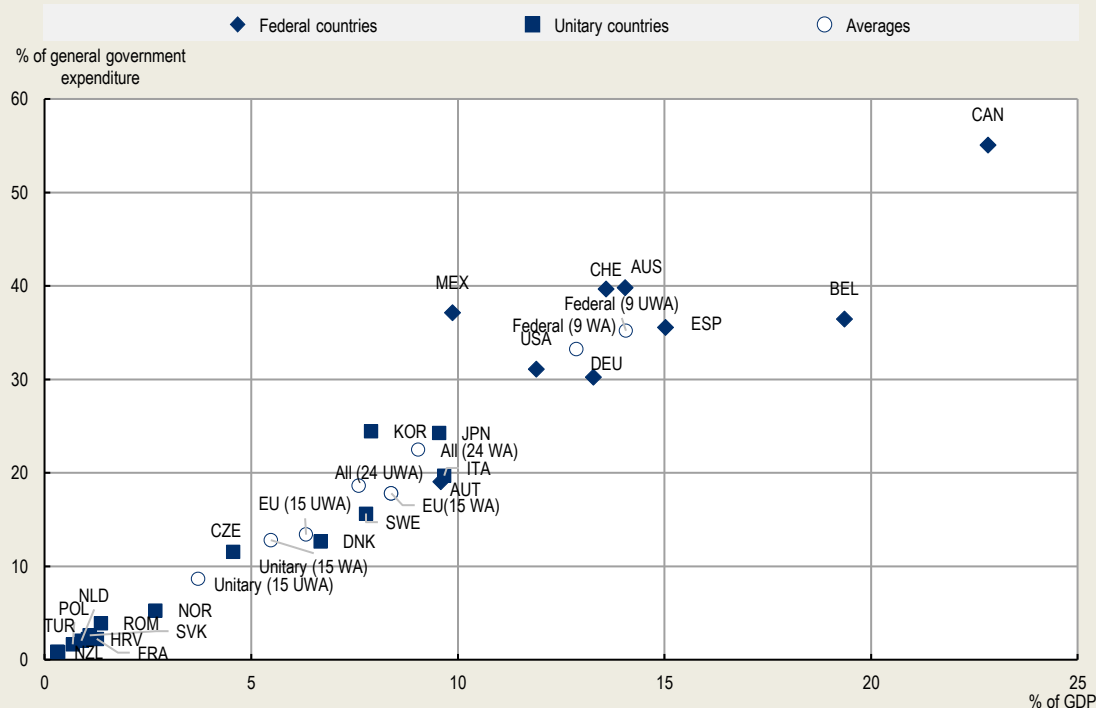
Box 4.22. The fiscal weight of decentralised regions and regions with legislative powers (Types 4a and 4b) differs between federal and unitary countries as well as across countries

Regional governments play a significant role in public expenditure and revenues. There are, however, great discrepancies between federal and unitary countries as well as across countries.

Federal countries stand out by their high level of subnational expenditure (except Austria and Mexico). These ratios are the highest in Canada, where provincial spending represented 22.8% of GDP and 55.1% of total public expenditure in 2016. Regional government spending in unitary countries stood at 3.7% of GDP and 8.7% of public spending in 2016 (unweighted average). Croatia, France, the Netherlands, New Zealand, Poland and Turkey ranked the lowest concerning both ratios. Regional governments accounted for 22.4% of total public investment and 0.7% of GDP on unweighted averages in 2016. These ratios are much higher in federal countries, where state governments carry out a large share of investment projects, accounting for around 35.6% of total public investment in 2016, which is

3 times higher than the unweighted average of unitary countries (10.6%). On the revenue side, there are also strong variations between federal and unitary countries and across countries.

Figure 4.8. Regional government expenditure as a percentage of GDP and a percentage of total public expenditure, 2016



Note: Data for Japan are for 2015. Averages are computed with duplicated 2015 data for Japan in 2016. No data for Greece and Hungary. UWA: Unweighted average. WA: Weighted average.

Source: OECD (2020_[95]), *Regional Government Finance and Investment Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=RFD>; OECD (2020_[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Box 4.23 shows how Type 4a and 4ab regions are funded in EU and OECD countries. In particular, decentralised regions can raise taxes which is not the case for other regional governance models. For example, in France, Japan, Poland and Sweden, tax revenues are an important source of revenue for regional governments. Among countries with tax resources, regional governments can receive either shared taxes (e.g. PIT in Croatia, the Czech Republic, Japan, Norway, Poland and Sweden; corporate income tax in the Czech Republic and Poland; VAT in the Czech Republic and France), own-source taxes or a mix of both shared and own-source taxes. Own-source taxes are diverse, including property transfer taxes, inheritance taxes, betting and lottery taxes, motorised vehicles taxes, sales taxes, consumption taxes, taxes on natural resources, excise taxes (alcohol, motor fuel and tobacco), taxes on economic activities and taxes on financial and capital transactions. Recurrent taxes on immovable properties are usually a local tax rather than a regional tax, and represent a small share of regional government tax revenue, except in Australia and New Zealand, where land and real estate property taxes are collected at the regional level.

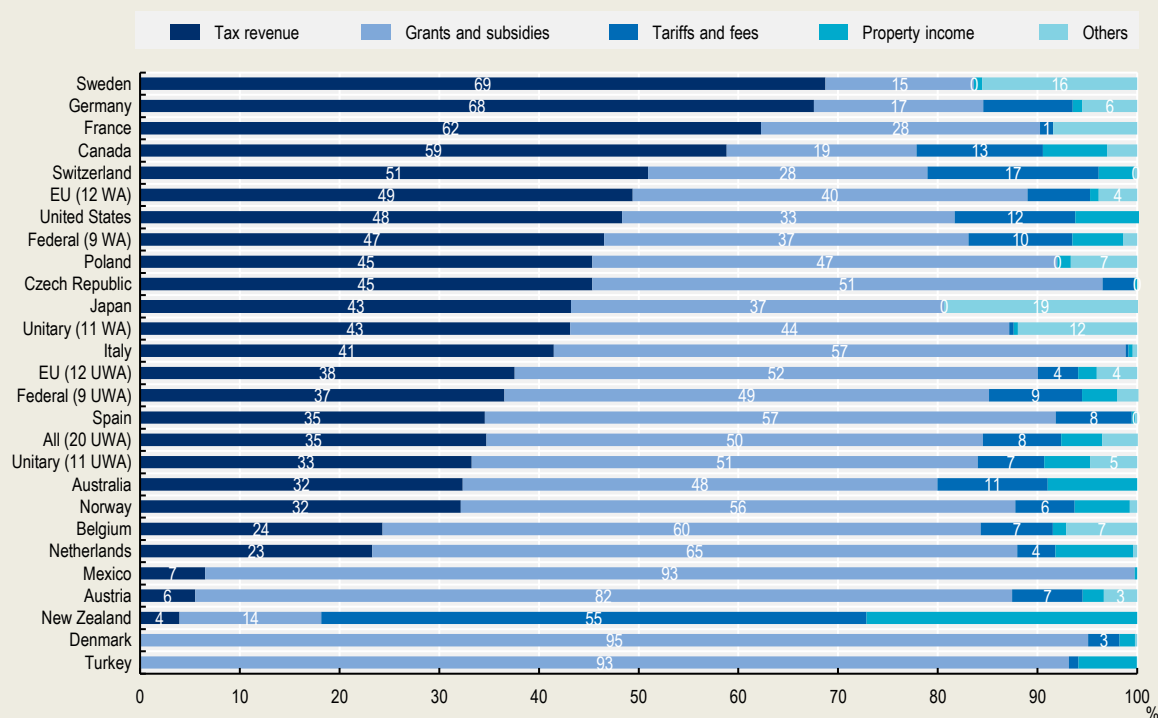
In some federal countries, regions are mainly funded by grants (Austria, Mexico) while in others, they are mainly funded by taxes, shared (Canada, Germany) or own-source (Australia, Switzerland, US).

Box 4.23. Financing Types 4a and 4b regions

The REGOFI database shows that regional governments are funded primarily by grants and subsidies (50%) and tax revenues (35%). Tariffs and fees represent only 8% of regional government revenue, while property income and other income represent 4% and 3% respectively. It is interesting to note that there is no large difference between federal countries and unitary countries. Discrepancies are mainly found at the country level, with countries where regions are funded mainly through grants and others where regions are mainly funded by taxes (shared or own-source taxation). Taxes are the main source of regional government revenue in Canada, France, Germany, Sweden and Switzerland. On the other hand, regional governments do not receive tax revenues and are almost exclusively funded by grants and subsidies in Denmark (since 2007), Hungary and the Slovak Republic.

In 2016, regional government tax revenue accounted for 13.5% of total public tax revenue in 2016 and 3.3% of GDP (unweighted averages) but the share of regional government tax revenue in national aggregates varies significantly across countries. In federal countries, state government tax revenues represented on average 22.6% of total public tax revenue, against 6.1% for unitary countries. In unitary countries, the ratio of regional government tax revenue in total public tax revenue was also above 10% in the Czech Republic, Italy, Japan and Sweden (OECD, 2020^[80]).

Figure 4.9. Breakdown of regional government revenue by type, 2016



Note: Japan (2010-15). Averages are computed with duplicated 2015 data for Japan in 2016. In Romania, other revenues are not disaggregated and may well include tariffs and fees and other revenue sources. UWA: Unweighted average. WA: Weighted average.

Source: OECD (2020^[95]), *Regional Government Finance and Investment Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=RFD>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Box 4.24. The case of regional development agencies (RDAs)

RDAs are one governance tool countries have used to design and implement regional development policies. RDAs of different forms are common in OECD countries, be they federal or unitary, centralised or decentralised, or regionalised with elected bodies or not. The idea behind the “agency model” is to have “separation” from the central or regional government, while being accountable to them. One of the goals for an RDA may also be to benefit from the complementarity of actions across national policy sectors in a given region. Finally, the RDA structure also allows for involving private actors, when they have a particular focus on business development and support, innovation programmes and investment attraction.

Most OECD countries with RDAs have regionally-managed RDAs, with a trend towards increasing specialisation in a particular sector, notably business development and/or innovation. Even when RDAs are accountable directly to a region, they are still part of a complex governance landscape involving multiple levels of government and sometimes the private sector. A survey in Europe noted that 40% of surveyed RDAs had funding sponsorship from other levels of government beyond the region. Agencies may also be accountable to a public-private board. Slovenia is a good example of strong RDAs that serve as technical and administrative support to RDCs and RCs (Box 4.20).

A few OECD countries have nationally-initiated RDA networks to support regional development. The choice for central government action is nested within a set of alternatives to address governance challenges, in particular, where there are no regional governments or when they are not at the right scale (Turkey). In most of these countries, the impetus for creation was to build capacity at the regional level in a centralised country context. In England (UK), a network of RDAs was created between 1998 and 2000 as part of the UK’s efforts towards devolution. RDAs were in use in England for a period between 1998 and 2011. With the change in government in 2010, a decision was made to eliminate the RDAs in favour of more bottom-up defined actions at a smaller scale than the regions.

The institution of RDAs, or structures of a similar purpose, has been driven in many OECD countries by the EU accession process, notably for countries in Eastern Europe. The creation of these national networks of regional agencies is designed to map to statistical areas that would receive EU regional policy funds. For example, Romania, which has both elected regions at NUTS 3 level and eight development regions at NUTS 2 level (with RDCs), has also established a network of RDAs, established in each of the eight regions, to develop the “strategy, plans and programmes for the regional development as well as the management plans for the funds” (Legislative Portal of Romania, 2004^[96]) and ensure the technical and financial management of the Regional Development Fund. Established as “Intermediary Bodies” (IBs) for the management of EU funds, the RDAs are also responsible to the council for the correct use of the resources and to send the selected regional projects to the RDC for approval (David, 2020^[97]).

More common among national RDA networks is a targeted approach focusing on business development as is the case in Chile, the Czech Republic, Iceland, New Zealand and Turkey. In Turkey, for example, the government established a national network of 26 development agencies in 2006 as regional planning units for preparing regional plans and strategies in accordance with the National Strategy for Regional Development (NSRD) 2014-23. Agencies have a participatory approach to encourage public-private dialogue.

Canada, a federal and highly decentralised country, is an original feature within OECD countries; it has a well-developed network of six national RDAs to help organise national interventions for regional development. Provinces have their own RDAs that coexist with the national network.

Source: OECD (2016^[48]), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, <https://doi.org/10.1787/9789264260245-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; David, E. (2020^[97]), “Debating regionalisation in Romania. Historical review and current draft laws on territorial administration”, https://www.researchgate.net/publication/343713356_Debating_Regionalisation_in_Romania_Historical_Review.

From one model to another: A continuous but non-linear process

Country examples are just snapshots of a regional governance model for a given moment in time. In fact, regional governance arrangements are not static and are constantly evolving. The most frequent situation is going from soft arrangements to stronger regional governance, which can be done gradually. France is a good example of this step-by-step approach (Box 4.25) but it is not an isolated example. Other countries have experienced the same process such as Chile, Greece, Italy, the Netherlands or Turkey (Table 4.5).

Box 4.25. France: An incremental approach towards elected regions

France is a good example of a step-by-step process. Before creating fully self-governing regional governments in 1982, France had gradually passed through several phases of central government co-ordination at the regional level.

At the end of the Second World War, the very high concentration of political and economic powers in the Paris region at the expense of the growth of other regions was denounced. Notably, the publication of the book *Paris and the French Desert* by Jean-François Gravier (1947^[79]) was perceived as a big shock, which sparked numerous debates and discussions on the need to rebalance the territories through a regional policy. As a result, in 1954, it was decided to establish several “economic programme regions”, transformed in 1959 in “districts for regional action”. These districts were replaced in 1963 by 21 “administrative regions” and “regional economic development commissions” (CODER). At the same time, 21 “regional prefects” were established as representative of the central government in the region. In 1969, the referendum on regionalisation aimed at creating elected regions failed. Instead, it was decided to transform the regions into “regional public establishments” (EPR), with legal personality and budgetary autonomy. EPR RCs are composed of deputies and senators elected in the region and an equal number of representatives appointed by the main municipalities in the region and the *départements* (the intermediate level of government). The executive, responsible for implementing the decisions of the regional council, is the regional prefect. Alongside the regional council is the Economic and Social Committee, a consultative assembly made up of representatives from the various socio-economic sectors. EPRs have to be consulted on issues of spatial planning and regional economic development.

Ten years later, the Decentralisation Act of 2 March 1982 gave the regions the statute of fully-fledged regional governments, providing them with additional responsibilities. The law allowed regions to freely administer themselves by directly elected councils (RCs). The executive power is transferred from the regional prefect to the president of the regional council, elected by the regional council from among their members. New responsibilities, staff and resources were transferred to these new regions. The first elections by direct universal suffrage were held in 1986. Successive decentralisation reforms further strengthened regional responsibilities (Table 4.5). With Act II of Decentralisation in 2003-04, regions were recognised by the constitution.

Other countries, specifically Finland, Latvia, Lithuania and Portugal, are currently discussing moving from one model to another to reinforce regional governance. Romania has been discussing a new regional governance model since the end of the 1990s based on different scenarios (Box 4.26).

Box 4.26. Current discussions in Finland, Latvia, Lithuania, Portugal and Romania

Lithuania is envisaging moving from a Type 1a regional model to a more effective regional governance system. Since 2010, the Law on Regional Development has been amended several times to develop the role of the RDCs, in the context of significant and increasing regional disparities. There is now a new discussion taking place about a deeper transformation of the RDCs. Since 2012, the Congress of Local and Regional Authorities of the Council of Europe has suggested increasing the number of competencies of the RDCs, strengthening their administrative apparatus and looking towards establishing regional budgets in the future. In December 2017, the *White Paper for Harmonious and Sustainable Development 2017-30* (Ministry of the Interior of the Republic of Lithuania, 2017^[98]) recommended creating an effective regional governance system, stating that “The Lithuanian regional policy review should create preconditions for an effective regional policy by reinforcing responsible self-governance focused on economic development, empowering Lithuania’s regions and developing them in a targeted manner, and ensuring coherent and consistent local, regional and state development”.

In this context, it is planned to increase RDC responsibilities and resources, providing them with legal personality and autonomous powers, together with a modification of the regional borders. The aim is “for the regional development councils to embody regions operating based on municipal co-operation and to become regional managers possessing legal status and real powers along with the regional competency offices (development agencies) or regional service centres subordinate to them”. This could result in the creation of a new subnational tier of government (Council of Europe, 2018^[99]).

Portugal is currently discussing the possibility to move from a Type 1b regional model to a Type 2 model (co-operative regional governments) or even a Type 4a one (decentralised regions). Today, CCDRs represent deconcentrated, rather than truly decentralised, services, although the creation of “administrative regions” in mainland Portugal is provided for by the 1978 Constitution. These deconcentrated entities, however, have helped to establish a footprint for regional governance that further regionalisation reforms can build on. It is interesting to note that these CCDRs are increasingly being used to define areas of operation for the decentralisation services of the various ministries, replacing the previous district geography (Veiga and Pedro, 2019^[100]). However, despite this mandate, they have not yet been able to catalyse a truly cross-sector, strategic approach to regional development. Today, there are discussions about different scenarios for regionalisation, in particular under the impulse of the Portuguese Independent Commission for Decentralisation of the National Assembly, which has commissioned a report from the OECD. Three approaches for regionalisation in Portugal have been presented, while the decentralisation process, which started in August 2018, should be continued with and followed through on (Veiga, 2019^[101]).

Finland and Latvia are planning to evolve from Type 2 regions to a more decentralised form of regional governance. **Finland**, since 2015, has planned to create 18 self-governing regions with their own directly elected regional assembly to replace the regional inter-municipal co-operation entities (called “regional councils”). Furthermore, these new regions would take on a substantial proportion of the responsibilities currently carried out by municipalities, inter-municipal co-operative organisations and the central government in the social and health sectors. In that context, the regional reform is a way of bypassing difficulties in implementing municipal reform. It also aims at rationalising the subnational government sector and improving public service delivery, accessibility, quality and costs, while enhancing its accountability with newly elected bodies. The central government would have primary

responsibility for financing the new regions. The existing multi-channelled financial resources would be simplified and citizens would have more freedom of choice regarding these services. In April 2019, however, this reform was suspended due to political disputes that led to the resignation of the government. The project is still on the table for discussion (OECD, 2017^[8]; 2020^[5]; Allain-Dupré, Chatry and Moisis, 2020^[36]).

In Latvia, with the new territorial reform which started in 2019 based on the Conceptual Paper on New Administrative Territorial Division, the future of planning regions is being discussed. In fact, the reform envisages merging the current 119 municipalities to create 39 local governments (34 municipalities and 5 cities). This reform, if adopted, will have a significant impact on the planning regions. According to the *Regional Policy Guidelines, 2021-2027* published in November 2019, Action 225.1 of the Government Action Plan acknowledges the necessity of introducing a regional government level. In this perspective, the Ministry of Regional Development will prepare, by 31 October 2020, a draft conceptual report that will analyse the role of regions in reducing territorial disparities and favouring regional competitiveness and will propose possible regional governance models. According to the guidelines, current planning regions should be preserved but their functional, financial and management status should be improved (Ministry of Environmental Protection and Regional Development of Latvia, 2020^[88]).

Romania has a complex regional structure based on 42 counties (including the municipality of Bucharest) and 8 development regions created in 1998 at NUTS 2 level to prepare the EU accession and the implementation of the EU regional development policy. They do not have a legal personality and administrative status. A new institutional network has been however established for their administration based on a National Council for Regional Development (NCRD), 8 RDCs and 8 RDAs. Reforming this regional structure has been discussed for several decades. There are different scenarios including: i) the status quo but promoting inter-regional co-operation between counties; ii) transforming the 8 development regions into 8 self-governing regions while maintaining the county level; iii) transforming the 8 development regions into 8 self-governing regions and abolishing the county level; and iv) merging the counties to create around 15-18 larger regional units (created on the basis on socio-economic criteria to regroup 2-3 counties) (AER, 2016^[102]).

Source: Ministry of the Interior of the Republic of Lithuania (2017^[98]), *Lithuanian Regional Policy White Paper for Harmonious and Sustainable Development 2017-2030*, https://vrm.lrv.lt/uploads/vrm/documents/files/White_Paper.pdf; Council of Europe (2018^[99]), "Local democracy in Lithuania", https://www.coe.int/en/web/congress/home/-/asset_publisher/EcOuMaGfRsUp/content/local-democracy-in-lithuania?inheritRedirect=false; Veiga, L. and C. Pedro (2019^[100]), "Portuguese multi-level governance studies", Unpublished manuscript; Veiga, L. (Veiga, 2019^[101]), "Multi-level governance in Portugal", Presentation during an OECD-MRDPW workshop organised in Sofia, September 2019; OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2020^[5]), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, <https://doi.org/10.1787/fea62108-en>; Allain-Dupré, D., I. Chatry and A. Moisis (2020^[36]), "Asymmetric decentralisation: Trends, challenges and policy implications", <https://doi.org/10.1787/0898887a-en>; Ministry of Environmental Protection and Regional Development of Latvia (2020^[88]), *Latvia's Experience in Regional Development Territorial Reforms and Financial Support Measures*; AER (2016^[102]), *Regionalisation in Romania*, <https://aer.eu/regionalisation-in-romania>.

It is important, however, to avoid having a vision of institutional evolutionism. The different models of regionalisation should not be considered as the rungs of a virtuous ladder that states need to climb to reach the ideal model of regionalisation, i.e. the greatest regional autonomy. Obviously, situations can change and depending on the reforms implemented a state can feature different types of regionalisation, going in different and sometimes opposite directions, regarding the level of regional autonomy (OECD, 2020^[5]).

In fact, while the regional government level has been gaining in importance recently, there are some cases of countries that went in the opposite direction, from a quite strong form of regional governance to a softer one, resulting from recentralisation processes (Table 4.5). This has been the case for example in Denmark,

in 2007, with a reduction in the responsibilities assigned to counties whose numbers were reduced from 14 to 5 regions. A further reduction of Danish regions role has been discussed, although the proposal to abolish the current five regions in the context of the healthcare reform was abandoned with the change of government in June 2019. In Hungary, the 2012 constitutional reform and the Cardinal Law on Local Governments have profoundly transformed the subnational government framework, reducing its scope, functions and financing resources. Counties lost several major competencies (healthcare, social initiatives and secondary education) to be left mainly in charge of regional and territorial development, which makes them key region development policy actors. In Estonia, the state regional government level (counties) was abolished in January 2018 and county tasks have since been given to municipalities (consolidated) and central government agencies. In other countries, regionalisation reforms are still being debated, sometimes for many years and in an intermittent fashion, but with no concrete results thus far (e.g. Japan).

Finally, several regionalisation projects have been abandoned or postponed such as in the Netherlands in 2014 (merger of provinces), in Sweden in 2017 (merger of counties) or Finland in 2019 (creation of elected regions). Some others have been rejected by the population following a referendum such as in Portugal in 1998, in England in 2004 and Slovenia in 2008. In 2006, in Italy, a national referendum rejected a constitutional reform that aimed at further strengthening the regions to transform Italy into a quasi-federal country. Ten years after, in the same country, a new referendum rejected another constitutional reform which intended to clarify the allocation of responsibilities between the central government and ordinary regions.

Understanding the ins and outs of the debate on regionalisation in Bulgaria

There is a growing consensus in Bulgaria on the need to have more place-based policies and place-based governance tools. However, reinforcing existing regional bodies has been discussed for many years, without real progress. The topic of regionalisation is sometimes referred to as the “saga of decentralisation at the regional level” (Djildjov, 2006_[103]). As already underlined in 1997, and still valid today, in spite of many commitments in favour of the creation of a regional level of governance, “there seems to be no definitive and clear concept of the size, nature, structure and functions of this regional tier” (CLRA, 1997_[104]).

The “saga of decentralisation at the regional level”

A historical perspective shows that Bulgaria has a long-standing tradition of regional government (Kalfova, 2019_[105]). Elected regions were established by the first democratic constitution (Tarnovo) and have existed for many years. These regions were abolished following the Second World War, however, since the drafting of the 1991 Constitution, the issue of regionalisation has remained under discussion but has never come to fruition, despite intermittent pressure from international organisations such as the Council of Europe during Bulgaria’s entrance into the EU (Box 4.27).

The 2006-15 Decentralisation Strategy and the 2006-09 Programme for the Implementation of the Strategy adopted by the CoM, included a range of measures to reinforce the district level but also to prepare for the establishment of the second level of regional self-government. Preparatory work started on different options for regionalisation (political organisation, responsibilities and resources). It resulted, most notably, in a report presenting “EU member states’ practices with two levels of functioning local government” (Council of Ministers of Bulgaria, 2007_[106]). Three options for regionalisation were proposed: maintaining the existing 28 districts, creating 12-13 districts or creating 6 districts. Later, in 2009, a twinning project between Bulgaria and France looking both at decentralisation and deconcentration concluded that there was a need to reinforce the district and the regional governor as a state representative at the territorial level, based on the model of the French prefect (Twining project BG 2006 et al., 2009_[107]). In 2011, the Congress of Local and Regional Authorities of the Council of Europe presented three “alternatives for the

development of regionalisation in Bulgaria” (CLRA, 2011_[108]). But no progress has been made in this direction. Linking regional policy and regional governance has yet to take place (Kalfova, 2019_[105]).

In the new 2016-25 Decentralisation Strategy, increasing the role of regional institutions for the implementation of co-ordinated regional development policy is still on the table, as one of the four main strategic objectives of the strategy.

Box 4.27. A historical perspective of the regionalisation process in Bulgaria

Bulgaria has not always been a country without elected regions. In fact, in 1879, the first democratic constitution, Tarnovo, established 3 administrative levels: 23 districts, 84 counties and municipalities and 2 of them – municipalities and districts – were self-governing. This three-tiered subnational organisation was maintained from 1880-1934 and was based on counties, districts and municipalities. From 1934 to 1947, it was based on regions, districts and municipalities. In 1947, the new constitution established a system of Soviet-type councils, with “local bodies of state power”, reaffirmed in the 1971 Constitution. The administrative divisions included districts, counties and municipalities (counties were abolished in 1959). In 1987, the 28 districts were merged into 9 large regions.

The 1991 Constitution, and the subsequent Law on Local Government and Local Administration, has significantly modified this past institutional model. It has established a two-tiered model, with municipalities defined as the basic level of self-government and the possibility of creating other levels of self-government by law. The regional level defined by the constitution is a deconcentrated level and not a decentralised one. This is the first Bulgarian constitution in which the second level of self-government is not obligatory (Djildjov, 2006_[103]).

In 1995, the Local Self-Government and Local Administration Act intended to reintroduce a “mixed” self-governing status at the district level, based on provincial councils formed by municipal councillors, an appointed governor and limited regional functions. However, this level was not introduced in practice due to economic and political difficulties. In 1999, the level of the 28 districts was re-established. They took the name of “regions” (*oblast*) to be consistent with the 1991 Constitution. Despite discussions and projects, they were not re-established as self-governing entities. Immediately after the reform, the opposition presented a bill establishing regional self-government with a directly elected district council, which was rejected.

Since 1995, the issue of regionalisation has remained on the table for discussion but it has never concretised, despite some pressures of international organisations such as the Congress of Local and Regional Authorities.

In 2001, the government programme indicated that it was necessary to conduct “a public discussion on (...) the establishment of a second level of self-government in accordance with the requirements for our European integration”. In 2003, the Updated Strategy for the Modernisation of Public Administration included a section on decentralisation, focusing on regional governance. In 2005, a report (unpublished), prepared as part of the framework of the decentralisation strategy stated that “the second level of self-government is an emerging need because of identical processes within the EU Member States”.

Source: Djildjov, A. (2006_[103]), “The saga of decentralisation at regional level”, *Public Administration Magazine* 1-2, pp. 26-36.

Some issues at stake concerning regionalisation

Several reasons – political, economic and social – explain the resistance to reinforced regionalisation in Bulgaria, both at the national and local levels. In addition to the fear that such reinforcement can arise (for example among municipalities and central government civil servants), there is a lack of civil society support or at least an indifference. Finally, to make this happen in a de facto manner, regional bodies need to be equipped with sufficient resources and capacities which raises additional challenges, especially in the context of scarce resources. Some stakeholders fear the introduction of a new level of politicians and administration and express concerns about increased costs resulting from this bureaucracy as well as potentially additional taxes in the future.

Overall, there are still a lot of discussions that need to be had about the relevant level for regional development (districts versus planning regions), the number of regions, their structure and their responsibilities.

Which regional level for regional development: Districts or planning regions?

There are currently several discussions going on about the right regional level for Bulgaria. According to the constitution, there is only one regional level, that of districts. But, to implement policies funded by EU cohesion funds, another regional level has been created by the Regional Development Law, that of the six planning regions at NUTS 2 level. Several questions arise based on this, namely which regional level should be chosen in the future for regional development? The level of 28 districts or that of the 6 NUTS 2 regions?

Advocates of the district level argue that the district is the only one that is recognised by the constitution, which, in addition, defines regional development as one of its main tasks. Proponents of districts also argue that the planning regions are newly developed, relatively unknown to the general public and lacking in a concrete structure, as they do not have their own administrations or budgets.

Advocates of the planning regions consider that only NUTS 2 are the basic regions for the application of regional policies according to the EU nomenclature. Only NUTS 2 regions are large enough to meet the conditions of regional significance, homogeneity and identity (Stoychev, 2018_[109]). Looking at other EU countries, it appears that NUTS 3 are rarely in charge of regional development policies, even when they are decentralised regions. This responsibility is either carried out by the central government or delegated at a higher regional level corresponding to NUTS 2 but without self-governing status. This is the case in Croatia, the Czech Republic, Hungary, Romania and the Slovak Republic for example.

In the following parts, it is proposed to keep both existing levels but with clearer, more focused and differentiated responsibilities and functions: districts would focus only on their missions as representative of the central government at a territorial level (deconcentrated administration) while planning regions would be promoted as the leaders for regional development.

How many planning regions for Bulgaria?

Long before the current NUTS regionalisation of Bulgaria was carried out, several prominent scientists worked on defining regions in Bulgaria based on different criteria and approaches. A significant number of regionalisation schemes were then proposed, such as five “landscape areas” in 1934, seven “economic areas” also in 1934, three major economic-geographic areas and nine sub-regions in 1952, five economic areas in 1954, seven economical regions in 1983, and more (Stoychev, 2018_[109]). In 1987, 9 regions were defined as administrative units, resulting from the merger of 28 districts but, in 1999, they were abolished and the 28 districts were restored.

The division into six regions was adopted by the decision of the CoM for the purposes of the National Plan for Regional Development 2000-06 as part of the pre-EU membership process. Therefore, they met the

requirements and conditions related to the accession of Bulgaria to the EU in the field of regional policy, in particular, the requirements of the Nomenclature of Territorial Units defined by Eurostat (EC, 2018_[110]). In 2010, the division was slightly revised because of negative demographic trends, which had led to 2 regions being below the minimum threshold of 800 000 inhabitants set by Article 3 of the Regulation (Southwest and Northwest).¹ To solve this issue, Stara Zagora region “migrated” to South East Bulgaria and the regions of Lovech and Pleven “migrated” to the North West (Stoychev, 2018_[109]). This issue however rapidly re-emerged as the population continues to decline. Between 2013 and 2018, several studies were carried out to suggest a new regional map, as the North Central and North West regions no longer met the relevant technical requirements.

Table 4.7. The current planning regions in 2018

Region	Population (2018)	Area (km ²)	Number of districts	Number of municipalities
North West	749 130	18 843	5	51
North Central	789 583	14 660	5	36
North East	931 370	14 560	4	35
South East	1 035 814	19 594	4	33
South West	2 105 300	20 228	5	52
South Central	1 413 840	22 116	5	58

Source: OECD based on data provided by the National Statistical Institute.

One scenario, set out in the draft Law on Regional Development in October 2018, was to reduce the number of planning regions from six to four. It was abandoned in the end (Box 4.28).

Box 4.28. How many planning regions for Bulgaria: Recent plans to reduce the number from six to four

A 2013 study commissioned by the MRDPW identified several options to redraw the map of the NUTS 2 region. The process was restarted in 2017, under the auspices of the Inter-Ministerial Working Group on the Development of Options for the Redrawing of Bulgarian NUTS Level 2 Boundaries led by the MRDPW (Ivanov, 2017_[111]). In 2018, an option among a shortlist of three options was inserted in the draft Law on Regional Development, distinguishing four regions: Black Sea, Danube, Southwest and Thrace-Rhodope.

Figure 4.10. Four new regions were proposed in 2018



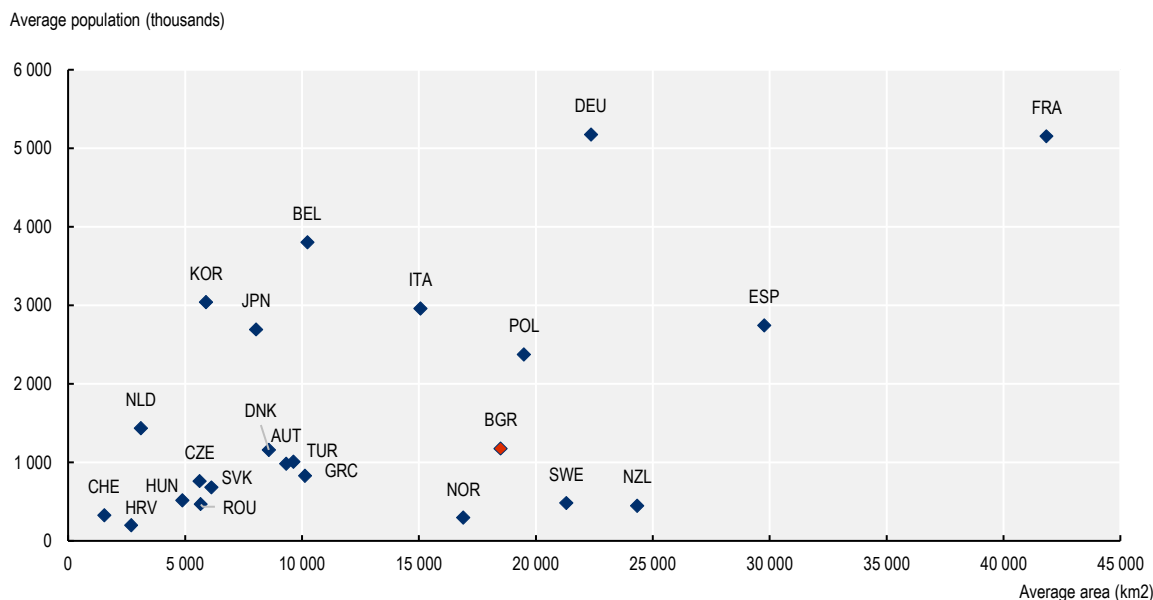
Beyond the problem of population decline in two regions, the advantages of the redrawing were the following: a well-balanced population with stability until 2060; expected comparatively balanced indicators for each of the regions; the existence of strong urban centres in each area; and natural geographic division. The disadvantages were that it implied identifying new NUTS 1 areas and updating all programming and strategic documents, except those for the South West region. The document was released for public consultation by the CoM in October 2018 (<http://www.strategy.bg/PublicConsultations/View.aspx?lang=bg-BG&Id=3793>).

Source (figure): Note from the MRDPW.

Source (box): Ivanov, L. (2017^[111]), *NUTS II Regions of Bulgaria - Inter-Ministerial Working Group on the Development of Options for the Redrawing of Bulgarian NUTS Level 2 Boundaries*.

Looking at the current demographic and geographic size of elected regions in EU and OECD countries compared to the size of Bulgarian planning regions, the reality is that there is no clear norm or ideal size for regional governments in terms of area or population. The demographic and geographic sizes of regional governments are very heterogeneous across and within countries, be they federal or unitary (Figure 4.11). In 13 countries, regional government boundaries corresponded to NUTS 2 and in 10 other countries, they corresponded to NUTS 3. It is important to note that, behind these regional averages, discrepancies between regions within countries may be large.

Figure 4.11. Average demographic and geographic size of regional governments in OECD countries compared Bulgarian planning regions, 2018



Note: Australia, Canada, Mexico and the US are not shown on the graph because of the large average size of state governments. In Turkey, regional average sizes include the special administration provinces and the provincial metropolitan cities. The regional average size in France does not include the five overseas regions. Norway: as of 2020 (following the reform).

Source: OECD calculations based on OECD (2019^[112]), *Key Data on Local and Regional Governments in the European Union* (brochure), https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf; OECD (2019^[113]), *Subnational Governments in OECD Countries: Key Data* (2019 Edition), <https://www.oecd.org/regional/regional-policy/datacollectionandanalysis.htm>.

Reinforcing planning regions but to do what?

Responsibilities related to regional development should be the foundation of the new planning regions, whatever their type. Place-based regional policy should go hand in hand with place-based governance, relying on local and regional governments. While municipalities should have a key role in local development, regions should be responsible for regional development. It does not mean however that central governments do not play a role as central governments are also important actors in developing place-based regional policy.

In fact, regional development policies are often a shared responsibility among national, regional and local actors in many EU and OECD countries. Because regional and local actors may have various resources, agendas, and legal or political standing, the role of the central government is increasingly important for providing an overarching framework and guidelines for regional development policies, ensuring dialogue and co-ordination and fostering equity and solidarity across territories (OECD, 2010^[81]; 2019^[9]). In particular, central governments play a key role in ensuring the balanced development of all parts of the national territory and minimising the potential risk of increased disparities, thanks to well-designed equalisation policies.

For Bulgaria, the new governance model for regional development does not mean transferring regional development from the central government to planning regions but establishing a new paradigm based on multi-level governance and vertical co-ordination mechanisms that foster a partnership-based relationship among levels of government (OECD, 2019^[9]).

This principle should also be translated into the management of EU funds. The EU has promoted multi-level governance for its Cohesion Policy through the “partnership principle”. This principle requires the involvement of new partners in programme formulation and implementation and was codified in 1988 (involvement of regional and local authorities), 1993 (economic and social partners), 1999 (organisations responsible for the environment and gender equality) and 2006 (NGOs and civil society bodies) (Nyikos and Talaga, 2014^[114]). In May 2018, the European Commission (EC) published its proposals for regulations for the next period from 2021 to 2027, stating that “Local, urban and regional authorities will be more involved in the management of EU funds, while the increase of co-financing rates will improve ownership of EU-funded projects in cities and regions” (EC, 2018^[115]).

Despite these guidelines, the way EU funds are managed for regional development varies widely between EU countries. In some EU countries, EU funds for regional development are managed centrally particularly in several Central and Eastern European countries, including Bulgaria. National governments continue “to exert a strong grip on key decisions and there is resistance to EU pressures for subnational empowerment and inclusive, horizontal partnership-working where this has gone against domestic preferences or pre-existing traditions (Nyikos and Talaga, 2014^[114]). In other countries, large parts of EU funds are fully managed by the self-governing regions, such as in Germany or Spain. Finally, in another group of EU countries, responsibility is shared between the central and regional government, accruing to a great variety of sharing models: by funds, operational programmes, objectives and axis; or by functions: preparation of regional strategies, programme planning, project generation and selection, management and disbursement related to project implementation, control and monitoring, evaluation and assessment.

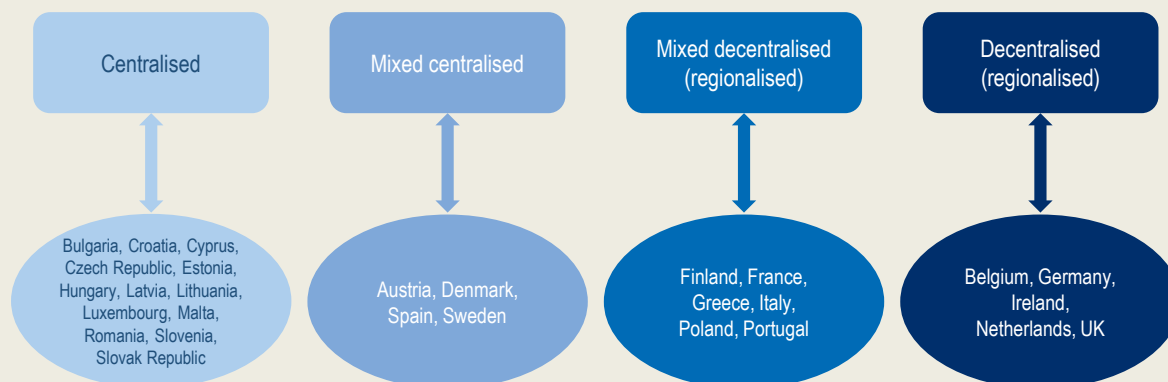
In reality, the institutional architecture for the management of European funds varies a lot according to countries, in particular depending on the national institutional setting and the allocation of responsibilities across levels of government. Four main models of governance of EU funds can be distinguished (Box 4.29).

Box 4.29. Four main models of governance of EU funds

Four main models of management of EU funds can be distinguished (French Senate, 2019^[116]; Nyikos and Talaga, 2014^[114]):

- **Decentralised (regionalised)** where regional programmes are managed and implemented by regional bodies, with limited national co-ordination. Beyond co-ordination, the role of the central government covers high-level negotiations with the EC, intergovernmental consultation and evaluation of the “best practices”.
- **Mixed decentralised (regionalised)** where regional programmes managed and implemented by regional organisations that can rely on strong national co-ordination.
- **Mixed centralised** where regional programmes are managed or implemented by national authorities or when the programmes are all national but their implementation delegated to regional intermediate bodies.
- **Centralised** where there are only national programmes managed and implemented mainly by national authorities (national ministries or other national central organisations). National ministries supervise the programme preparation, spending, monitoring and evaluation. In some member states, the role of the national level can be very strong, without no or very limited delegation of responsibility.

Figure 4.12. Four main models of management of EU funds



Source: OECD elaboration based on French Senate (2019^[116]), “On the under-use of EU funds in France (in French only)”, http://www.senat.fr/rap/r18-745/r18-745_mono.html#toc186; Nyikos, G. and R. Talaga (2014^[114]), “Cohesion policy in transition – Comparative aspects of the Polish and Hungarian system of implementation”, <https://pdfs.semanticscholar.org/62bc/66b4a9b161640ed5d02aef5db410e017225f.pdf>.

The current reform of the RDCs in Bulgaria

The Regional Development Act has been amended in March 2020 to establish, among others, a new governance system for the next programming period.

The RDCs will be responsible for the pre-selection of projects in compliance with the integrated territorial strategy of the corresponding region. This will be a completely new role for them and it is expected that they will face the same or even heavier challenges than the current IBs. A new organisation of RDCs will

be established. This is a step in the right direction but additional functions related to regional development and management of EU funds could be progressively delegated to planning regions in the future, especially if their governance structure is reinforced together with their fiscal, technical and human capacities.

Box 4.30. The future plan concerning the role and organisation of the RDCs in the framework of the new integrated approach for regional development

Each RDC will consist of two levels: management and expert level. The members of the management level are representatives of the municipalities, district governors, NGOs, local businesses, academia, employers' organisations and trade unions, as well as representatives of the sectoral ministries. The president of RDC would be elected either by the members of the RDC or after a contest (optional for each RDC). Additionally, it is foreseen to include observers in the RDC with a non-voting right, in particular the Central Coordination Unit, the National Statistical Institute, the National Centre for Territorial Development and the Bulgarian Academy of Sciences. The expert level is organised into three special units:

- The Mediation Unit that works locally, organising meetings with stakeholders and supporting the partnership agreements.
- The Public Consultation Unit that organises and conducts public consultations of projects in the region.
- The Pre-selection Unit that selects and prioritise Integrated territorial investment (ITI) concepts depending on their contribution to the relevant Integrated Territorial Strategies (ITS) based on predefined criteria. Each Managing Authority (MA) will have the opportunity to mobilise its own experts in this unit. It is envisaged that the selection of operations will be carried out in two phases: i) preliminary selection of ITI concepts – carried out by the RDC; and ii) evaluation of the individual project proposals included in the concepts – carried out by the respective MA of the OPs.

This new organisation is meant to implement the new integrated territorial approach in Bulgaria promoted by the 2020 Regional Development Act. In particular, RDCs will function as the territorial authorities responsible for the ITS and the pre-selection of ITI concepts.

Regional schemes for spatial development are currently being prepared by the National Centre for Territorial Development with the active involvement of RDCs, which are responsible for approving strategies per the Regional Development Act.

Source: MRDPW (2019^[17]), *Regional Development Policy and Implementation Approach - Meeting with DG REGIO*, Ministry of Regional Development and Public Works.

Recommendations for reforming districts and planning regions

The option which is proposed is not to choose between one level over the other, but to reform both levels with much clearer and more focused and differentiated functions. Districts should be maintained and reinforced as state territorial administration (deconcentrated central government) but with no further responsibility for regional development. Planning regions should be promoted as a legal body in charge of regional development as their basic function and they should be adequately resourced to do so.

Reinforcing the role of the districts as state territorial administration

Districts should be reformed and strengthened to accompany the decentralisation process, adapted to the increasing role of planning regions and enhanced in their co-ordination and control functions as state deconcentrated administration at territorial level, similar to the French model of prefectural administration (Twining project BG 2006 et al., 2009^[107]). A review could also be conducted about future opportunities to modify district boundaries to maintain administrative and territorial alignment.

Reconfiguring districts responsibilities and scope

The role of the districts should be reinforced so that they can more effectively take on different roles:

- **Vertical co-ordination between the central government and municipal levels:** Managing relations between different levels of government is a necessity in a decentralised context. The district level seems to be in the best position to manage this vertical relationship, with its constitutional status and historical traditions. Districts should play a proactive role in co-ordinating national and local policies, with a shift from a traditional top-down transmission organ to a “mediator” role able to reconcile different perspectives (Boulineau, 2005^[118]).
- **Horizontal co-ordination of central government activities at the territorial level:** Districts should become the scale of co-ordination of central government administration. In France, for example, according to the constitution, the prefect is the direct representative of the prime minister and every ministry at the departmental level in implementing government policies and their planning. The prefect is responsible for national interests, administrative supervision and compliance with laws and is in charge of public order.
- In the short and medium terms, it is also important for the line ministries and central agencies to gradually rationalise and streamline the existing territorial directorates – not only in terms of consolidating their numbers but also in clarifying what functions and responsibilities should be deconcentrated to territorial units in order to improve the efficiency of work. This process can help pave the way for districts to better carry out co-ordination at the territorial level and they should actively participate in this consolidation process.
- **Horizontal co-operation between municipalities:** Districts could play a more proactive role in supporting critical projects that require cross-jurisdictional co-operation and local development. They could act as integrators, in particular assisting with consolidating the work in weaker and rural municipalities. They could be instrumental in fostering and supporting inter-municipal co-operation. Districts have a key role to play in encouraging municipalities to work together on large-scale projects (Stoilova, 2007^[119]).
- **Administrative and budgetary control of municipal activities:** Districts could reinforce their legal control. Similar to what happens in France, they could also receive new tasks related to the monitoring of municipal activities, such as *a posteriori* budgetary and financial control of municipalities, in liaison with the Ministry of Finance. The objective would be to reinforce their means to combat and curtail corruption more effectively.

Today, districts’ responsibility in the area of regional development is enshrined in the constitution (Article 142). To avoid a constitutional revision, districts could keep a role in this area by highlighting their involvement in support of local development and territorial co-operation with other districts inside or outside Bulgaria, including cross-border co-operation.

Reinforcing human and financial capacities of the districts

The human, technical and financial capacity of the districts should be significantly reinforced as today they do not have sufficient means to carry out their tasks. Fragmented territorial units of the central administration could be rationalised and consolidated at the district level for cost savings but also to better

implement public policies and provide quality services to citizens and businesses (Government of Bulgaria, 2014^[30]). In that process, some transfers of staff and budget from territorial units of the central government could be envisaged, in line with district responsibilities. The status and powers of District Development Councils (DDCs) should be revised to take into account the fact that they will no longer be in charge of regional development. DDCs were created by the Regional Development Act to carry out regional development but they could be abolished or transformed into a consultative body. In that case, it would be necessary to review their composition and functioning. They could comprise more representatives of the civil society and be consulted on the modernisation of public services delivered by the central government at the territorial level.

Which territorial organisation for the districts?

The precise scope of district responsibilities would depend on their future territorial organisation. There are 2 scenarios: keeping the 28 districts or merging the 28 districts into 6-state regional administrations. Both options are viable. In the first scenario, keeping the current territorial boundaries makes co-operation and control of municipalities easier as it guarantees some proximity. In the second scenario, adopting the same boundaries of planning regions also facilitates co-operation with regional entities while limiting the costs of deconcentrated administration.

International experience shows that there is no one correct model. In Greece, there are 7 territorial state administrations and 13 decentralised regions, established in 2011. In Norway, following the recent merger of regional governments, it has been decided to also merge the state territorial administration with the same regional boundaries. In Romania, the state deconcentrated administration is established at the scale of the 41 prefectures. In France, it has been decided to keep a deconcentrated administration at regional and departmental levels. Since 2016, the network of prefectures has been engaged, on an unprecedented scale, in the development of “a new generation of prefectures” plan. The network of regional prefectures has also been modified following regional mergers decided by the 2014 law on the delimitation of the regions, reducing the number of regions from 26 to 17 in mainland France and overseas (Box 4.31).

Box 4.31. State territorial administration at the regional level in some EU and OECD countries

In many countries, parallel decentralised and deconcentrated systems coexist. Decentralisation does not mean that the central government cannot maintain certain functions at the local level or allow them to evolve to adapt to institutional change in the governance system. Depending on the country, the role of state representatives at the territorial level in a decentralised system can differ, ranging from a mere representative function to a more significant role. State deconcentrated administration may be responsible for implementing national policies at the regional and local levels and ensuring that subnational government policies are in line with national policies. In some countries, state territorial representatives also carry out legal and fiscal oversight functions on local government actions. They may also play a co-ordination role between the different stakeholders, acting as a “pivot” of the administrative system, facilitating multi-level government dialogue on the ground, and sometimes acting in an advisory and mediator capacity. Finally, deconcentrated state services may also provide national public services at the territorial level.

- In **Croatia**, there is a State Administration Office at the county level which performs the tasks of the central government whose head is appointed by the government.
- In **Denmark**, the 15 county prefectures were transformed into 5 regional prefectures by the 2007 public administration reform.
- **France** has maintained a strong and powerful prefectural administration at the regional and departmental levels led by a prefect (*préfet*) as well as local directorates of various ministries

placed under their authority, so-called “deconcentrated services”. Since 2016, the network of prefectures is engaged in a major reform, called the “new generation of prefectures” plan. This reform also aims at refocusing prefectures on the four missions that make up the singularity and strength of the prefectural network: security and public order, including crisis prevention and management, legal and budgetary oversight of subnational governments, the fight against fraud by relying more on new technologies and finally, the territorial co-ordination of the implementation of public policies (Ministère de l'Intérieur, 2020^[120]).

- In **Greece**, the central government has seven deconcentrated administrations at the territorial level. Led by a general secretary appointed by the Ministry of the Interior, they are mainly responsible for the co-ordination of state territorial administration, multi-level co-ordination, administrative supervision of subnational governments, management of public assets, administrative issues, environmental affairs and representation of the central government.
- In **Norway**, the deconcentrated administration at the regional level is represented by the county governor. In addition to co-ordinating the activities of other central government bodies at the county level, the county governor supervises local government activities according to Article 59 of the Local Government Act. Within the framework of the current regional mergers reform, the number of state regional administration has been reduced from 18 to 10.
- **Poland** has a deconcentrated state territorial administration, based on 16 prefectures managed by a prefect, who is appointed by the prime minister. Prefectures are responsible for implementing national policies at the regional level and ensuring that they are in line with subnational policies. Prefectures also have a co-ordinating role between subnational government units, in particular, to finance state-funded regional projects. They are also in charge of supervising local governments.
- In **Romania**, the central government established 41 prefectures, which oversee the deconcentrated public services of the central public administration in each county.
- In **Sweden**, the central government has its own administration at the county level, the county administrative boards (CABs), which are led by county governors appointed by the central government. CABs are responsible for co-ordinating central government activities in the counties. Until the 2019 reform, some CABs were in charge of regional development policies. This function is now carried out by decentralised regions.

Source: Adapted from Ministère de l'Intérieur (2020^[120]), *PLF 2020 - Administration générale et territoriale de l'Etat*; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Strengthening the planning regions as regional development public body: Different scenarios

Bulgaria needs to adapt its regional governance to its new place-based regional development policy. The weaknesses of the current planning regions prevent them from actively contributing to regional development, despite it being their main task on paper. Planning regions should be endowed with wider responsibilities to formulate, adopt, implement and monitor strategic planning documents but also to select, finance and implement projects of regional and inter-regional importance, including those funded by EU funds.

The key issue is to transform the current planning regions from statistical units to structured and acting bodies with the full capacity for implementing regional development policy. For this purpose, the existing planning regions and RDCs should be reinforced regarding their status, legitimacy, powers,

responsibilities, organisation and capacities, both human and financial, to allow them to effectively support regional development policy design and implementation.

The current discussions around regionalisation, described above, show that the creation of a new layer of government could be too radical, bringing the risk of rejection of the whole process of regionalisation. Instead of a “big bang” reform, Bulgaria could adopt an incremental approach by gradually strengthening existing regional bodies. The first objective of the approach would be to demonstrate the appropriateness and added-value of a true regional orientation compared to the addition of local orientations. Then, by providing planning regions with a legal personality, clear responsibilities and functions and adequate resources (human, fiscal and technical), the process would allow for improved regional decision-making, enhanced skills for regional development and a higher quality of projects and planning.

The current reform of the Regional Development Act is a step in this direction, by clarifying and strengthening the role of RDCs and improving their organisation. However, it does not go far enough to provide planning regions with a real capacity to act as it is not foreseen to provide the planning regions with a legal personality, administration and/or budget. Therefore, the regional governance model which is currently retained for the next programming period 2021-27 would remain a Type 1a model. Other scenarios of regional governance are proposed below for discussion as alternatives to the Type 1a model. The upcoming 2021-27 programming period could then be used to discuss and perhaps implement more integrated forms of regional governance.

Scenarios for transforming Bulgarian planning regions into empowered regions

The foundation of all scenarios: Providing a legal personality to planning regions

The first step would be to provide a legal personality to planning regions, that of a public body, with its own budget and administration. Because of the complexity of the current situation, it is recommended to keep the same number of regions but to provide them with names that “make sense” to the general population in terms of identity, which can be a challenging task. The names and territorial scope of the regions are vital because they provide regional identification within the national space (Stoychev, 2018^[109]) Consultations with the population could be organised to carry out this change.

In terms of governance, the system of “rotating” district governors should be abolished and replaced with a permanent executive organ. The status of this executive body would depend on the chosen model of regional governance. In fact, governors could be either appointed for a given period by the central government (e.g. a duration corresponding to the municipal mandate) or elected (directly or indirectly). The planning regions will continue to have RDCs whose composition, functions and role would also depend on the selected model. But in any case, RDCs should ensure more representation of local actors and involve more civil society representatives.

In all cases, planning regions, as legal entities, would have their own assets, administration and budget. A challenging issue will be to choose a capital for the region where regional headquarters will be situated.

In terms of functions, regardless the chosen scenarios, planning regions’ responsibilities should be expanded in the areas of spatial planning, regional development and management of EU funds to also include selection, funding, implementation and monitoring of projects. Adequate financial resources, skilled staff and modern tools (e.g. an efficient IT system, performance indicators) should be made available to planning regions so that that can effectively perform these tasks, in particular, those concerning implementation, monitoring and evaluation.

Four regional governance models have been presented above, as well as the solution of RDAs. Two models could be implemented in the short or medium term (Type 1a and 2) in Bulgaria. Type 3 (mixed/hybrid regions) is not recommended for various reasons. The Type 4a model (decentralised regions) seems premature but could be implemented in the longer term. The Type 4b model is not suitable for Bulgaria, as it mainly concerns federal countries or unitary countries with strong asymmetric features.

Towards statistical/planning regions with an administrative status (Type 1b)?

Apart from keeping the Type 1a model (*status quo* including improvements included in the last Regional Development Act), moving towards planning regions with administrative status is the simplest and fastest scenario as it consists of providing legal status to the current governing structure and involves providing the regions with their own budget and administration. The governance structure would remain roughly the same, however, with several improvements:

- It would be necessary to replace the system of rotating governors by a permanent executive body (president). Planning regions would have wider responsibilities in the area of spatial planning, regional development and management of EU funds, to include selection, funding, implementation and monitoring capabilities. Their budget would be delegated by the central government.
- The composition of RDCs would be modified to reduce the domination of central government representatives and enlarge the representation of municipalities. Representatives of civil society would participate in RDCs as permanent members to support the partnership principle.
- Encouraging peer learning, providing clear guidelines, developing information flows and knowledge exchange will be fundamental to building the capacity of the RDCs to be successful in their new functions (regional development, planning, project selection for the future PDR 2021-27 as well as other OPs, monitoring, etc.). Establishing a working group or network of RDCs where they can easily share experiences and learn from one another, as well as build peer networks would be valuable for ensuring further capacity is built to support effective regional OP management and implementation. The working group could also serve as a regional-level co-ordination mechanism for RDCs to discuss common needs and opportunities for inter-regional co-operation and to find solutions for common challenges (OECD, 2019_[121]).
- The creation of expert committees would be mandatory in some areas, in particular, for regional development.
- Planning regions would have their permanent administration. Current MRDPW deconcentrated offices could become permanent staff for the new planning regions. Districts could also transfer some of their staff previously working on regional development. Depending on the scope of new functions carried out by the planning regions, other staff transfers could be envisaged as well as new recruitments. Significant training programmes should be established to enhance competencies and skills.

Towards regional association of municipalities (Type 2)?

This scenario is more ambitious and difficult to implement. However, as underlined above, it has proven to be valuable in several OECD countries as it allows for a “partial democratisation” of the system of governance through the direct involvement of municipalities in the governance structure, which could then be more supportive to this type of regionalisation. This scenario has several variations depending on the way representatives of municipalities are nominated for the RDCs, either through elections or appointments.

This model allows having a legal status, with a proper administration and budget and the possibility to design and finance regional projects. All improvements described above should be also implemented (permanent executive body and staff, expert committees). In addition, the budget would be diversified as it would receive contributions from municipalities, in addition to central government subsidies and EU funds. Municipal financing shares should be high enough to create incentives for municipalities to avoid the so-called common pool problem (OECD, 2020_[5]). The municipal staff could be also delegated to planning regions, on a temporary (specific projects) or a more permanent basis. In terms of responsibilities, planning regions would mainly focus on regional planning and EU funds management but they could also be an efficient tool to support co-operation and co-ordination between municipalities, in particular for inter-municipal investment projects. They could also carry out other tasks, delegated to them by their members,

in areas with clear regionwide benefits such as environmental protection and regional road construction/maintenance.

Towards mixed or hybrid regions (Type 3)?

As noted above, this model of regional governance is not very widespread in OECD countries. It was proposed in Bulgaria in 1995 but was finally abandoned. This model has more cons than pros. Among the pros are the fact that it reflects a move towards decentralisation, i.e. towards more local democracy and accountability, through the existence of elected councils. The cons are the complexity of relationships between elected and appointed bodies and decentralised and deconcentrated structures within the same entity. In Chile, for example, the “mixed” regional administrative structure generates some opacity on the level of responsibility and accountability. First, the *Intendente* as the executive head of the region and president of the RC should act in the best interest of the region’s development. However, as a representative of the central government in the region, the *Intendente* is also called upon to represent and implement national-level policies and guidelines, which may not always align with regional priorities. Second, the deconcentrated services of line ministries are also in an awkward position: they answer directly to their ministry because they are regional representatives of sectoral priorities and policies, yet they also serve the *Intendente* and work to implement sector initiatives at the regional level in line with the *Intendente*’s priorities. Finally, the institutional role and administrative functions of provincial governors (head of regional council) are unclear, as is their degree of influence in implementing national or regional policy within their territories (OECD, 2013_[122]). In the end, Chile decided to move away from this complex regional governance model towards fully decentralised regions. The first regional elections of governors are to take place in 2021 (OECD, 2017_[6]).

Towards decentralised regions (Type 4a)?

This model of regional governance seems premature, according to discussions and meetings held throughout the course of this study. It seems that there is still some opposition from different groups at both the national and local levels. This model is also perhaps more difficult to implement on a constitutional level, although the constitution stipulates that in addition to the municipal and regional (district) tiers of territorial administration, “other administrative territorial units and bodies of self-government shall be established by law”.

This model has, however, some supporters, for example, the Union for Economic Private Enterprise that notices that “regional governance is still simply a form of territorial organisation of central government” (UPEE, 2020_[33]). This option is clearly stated in the 2016-25 Decentralisation Strategy in Priority 3 of Strategic Objective 4: “Research the possibilities for creating a second level of local self-government”.

This model of decentralised regions potentially has large benefits for Bulgaria, notably in terms of local democracy and accountability (direct elections and check-and-balance system) and effectiveness.

In fact, in this scenario, regions could have access to more diversified funding sources (central government and EU funding, subsidies, user charges and fees, income from assets) and access to external financing (for the most integrated regional governments), as described in Table 4.8.

In terms of responsibilities, decentralised regions would have more authority in the area of regional development – although this is not a general rule – but also in other sectors. Generally, regional governments are responsible for providing services of regional interest, which can benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (see Type 4a: Decentralised regions and detailed description of regional responsibilities in Annex A).

Table 4.8. Sources of funding by type of regional governance model

Regional typology	Type 1a	Type 1b	Type 2	Types 4a and 4b
Types of resources	No own budget	Central government funding EU funds under certain conditions	Central government funding EU funds Municipalities' contributions Users charges and fees (for services rendered) Income from assets Access to external financing (borrowing)	Central government funding EU funds Taxes (shared and own-source) User charges and fees (for services rendered) Income from assets Access to external financing (borrowing, PPPs, etc.)

Note: Type 3 is not described in the table as it is a very particular case.

Box 4.32. Decentralisation and management of EU funds

The model of decentralised regions generally allows for transferring more tasks concerning the management of EU funds to regional governments. In fact, in several EU countries, decentralisation policies have resulted in transferring large responsibilities concerning EU fund management to the regions. In Poland, since 2007, regions are fully responsible for a large share of European cohesion funds (25% of EU cohesion funds in 2007 and almost 60% currently) and thus regional bodies are the MAs of the EU structural funds. In France, since the 2014 law on the modernisation of the territorial public action and affirmation of the metropolises, regions are in charge of managing EU funds for regional development (European Structural and Investment Funds, ESIF). Over the 2014-20 programming period, 76% of ESIF are no longer managed by the central government but by the regional governments, i.e. around EUR 20.5 billion out of a total of EUR 27 billion in France. This transfer of responsibility has led the regions to develop new functions such as steering, co-ordination, support, monitoring and auditing. Transfers of staff from the central government to regions have required long and difficult negotiations, resulting in the transfer of an insufficient number of people. Regions had to recruit new hires to compensate for this loss. The transfer of different information and management systems from the central government to regional systems has also been a difficult issue.

However, this is not a general rule. It is worth noting that the management of EU funds is not always a function of decentralised regions. In several countries, despite the existence of decentralised regions, there is still a centralised approach to regional development and EU funds management. In Greece for example, 13 state deconcentrated regions were first introduced in 1986 with the unique purpose of co-ordinating regional development policies and managing EU structural funds (Kalimeri, 2018^[123]). In 2010, the Kallikratis Reform transformed these administrative entities into self-governing regions. However, although the Greek regional level has several planning competencies, the regional development administration remains centralised, especially the allocation of EU funds which is a responsibility of the central government and its agencies (Hooghe et al., 2016^[78]; OECD, forthcoming^[124]).

In countries having small decentralised regions (NUTS 3), regions are generally not in charge of EU funds. This responsibility is either carried out by the central government or delegated at a higher regional level corresponding to NUTS 2 but without self-governing status. This is the case in Croatia, the Czech Republic, Hungary, Romania and the Slovak Republic for example. In Romania, the management of EU funds is carried out at the national level by a National Council for Regional

Development (NCRD) and at NUTS 2 level, by 8 RDCs and 8 RDAs, while Romania has 42 counties at NUTS 3 level. The RDAs act as Intermediate Bodies (IBs) for the management of EU funds.

Source: Kalimeri, V. (2018^[123]), "The Kallikrates vs the Kapodistrias Reforms in Greece: A story of moderate success", <http://dx.doi.org/10.2478/pce-2018-0003>; Hooghe, L. et al. (2016^[78]), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press; OECD (forthcoming^[124]), *OECD Territorial Reviews: Regional Policy for Greece Post-2020*, OECD Publishing, Paris.

Conclusion: Which model of planning regions for Bulgaria?

It is recommended to further explore the possibility of implementing the Type 1a (planning regions with an administrative status) or Type 2 model (regional association of municipalities) in Bulgaria. If moving towards an effective decentralised regional governance model remains a desirable scenario in the longer term, as stated in the 2016-25 Decentralisation Strategy, it would be preferable to transform planning regions into "co-operative regions" that could serve as a capacity-building exercise and prepare the ground for decentralised regions in the future.

References

- AER (2016), *Regionalisation in Romania*, <https://aer.eu/regionalisation-in-romania>. [102]
- Ahrend, R., C. Gamper and A. Schumman (2014), "The OECD Metropolitan Governance Survey: A Quantitative Description of Governance Structures in Large Urban Agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, <https://doi.org/10.1787/5jz43zldh08p-en>. [49]
- Aleksiev, Y. (2016), "The discredited decentralization - Regional profiles", <https://www.regionalprofiles.bg/en/news/the-discredited-decentralization/>. [75]
- Allain-Dupré, D. (2018), "Assigning responsibilities across levels of government: Trends, challenges and guidelines for policy-makers", *OECD Working Papers on Fiscal Federalism*, No. 24, OECD Publishing, Paris, <https://dx.doi.org/10.1787/f0944eae-en>. [92]
- Allain-Dupré, D., I. Chatry and A. Moisisio (2020), "Asymmetric decentralisation: Trends, challenges and policy implications", *OECD Regional Development Papers*, No. 10, OECD Publishing, Paris, <https://doi.org/10.1787/0898887a-en>. [36]
- Allers, M. and B. van Ommeren (2016), "Intermunicipal cooperation, municipal amalgamation and the price of credit", *Local Government Studies*, Vol. 42/5, pp. 717-738, <http://dx.doi.org/10.1080/03003930.2016.1171754>. [45]

- André, C. and C. García (2014), “Local Public Finances and Municipal Reform in Finland”, *OECD Economics Department Working Papers*, No. 1121, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5jz2qt0zj024-en>. [12]
- Australian Government (2020), *National Federation Reform Council*, <https://pmc.gov.au/domestic-policy/national-federation-reform-council>. [22]
- Bartolini, D., S. Stossberg and H. Blöchliger (2016), “Fiscal decentralisation and regional disparities”, *OECD Economics Department Working Papers*, No. 1330, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5jlpq7v3j237-en>. [3]
- Bergvall, D. et al. (2006), “Intergovernmental Transfers and Decentralised Public Spending”, *OECD Journal on Budgeting*, Vol. 5/4, <https://doi.org/10.1787/budget-v5-art24-en>. [58]
- Blöchliger, H. (2015), “Reforming the Tax on Immovable Property: Taking Care of the Unloved”, *OECD Economics Department Working Papers*, No. 1205, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5js30tw0n7kg-en>. [60]
- Blöchliger, H., D. Bartolini and S. Stossberg (2016), “Fiscal Decentralisation and Regional Disparities”, *OECD Economics Department Working Papers*, No. 1330, OECD Publishing, Paris, <https://doi.org/10.1787/5jlpq7v3j237-en>. [7]
- Bobcheva, N. (2008), “Strengthening sub-municipal governance in Bulgaria: Demand for further reforms?”, http://www.nispa.org/files/conferences/2008/papers/200804151512270.Bobcheva_BG.pdf. [31]
- Boulineau, E. (2005), “Les habits neufs des découpages socialistes dans les réformes administratives récentes en Bulgarie”, in *Territoires d'Europe : La différence en partage*, ENS Éditions, <http://books.openedition.org/enseditions/6647>. [118]
- Bradley, M. (2019), *Regional Spatial and Economic Strategy (RSES) for the Eastern and Midland Region*. [87]
- Charbit, C. and O. Romano (2017), “Governing together: An international review of contracts across levels of government for regional development”, *OECD Regional Development Working Papers*, No. 2017/04, OECD Publishing, Paris, <https://dx.doi.org/10.1787/ff7c8ac4-en>. [24]
- Citizens Information Board of Ireland (2015), *Regional Assemblies*, https://www.citizensinformation.ie/en/government_in_ireland/local_and_regional_government/regional_assemblies.html#la82be. [86]
- CLRA (2011), *Local and Regional Democracy in Bulgaria*, Congress of Local and Regional Authorities, Council of Europe. [108]
- CLRA (1997), *Report on the Situation of Local and Regional Self-government in the Republic of Bulgaria - CG (5) 3 Part II*, Congress of Local and Regional Authorities, Council of Europe, <https://rm.coe.int/1680718e1e>. [104]
- Council of Europe (2018), “Local democracy in Lithuania”, https://www.coe.int/en/web/congress/home/-/asset_publisher/EcOuMaGfRsUp/content/local-democracy-in-lithuania?inheritRedirect=false. [99]

- Council of Europe (2017), *Centre of Expertise for Local Government Reform: Peer Review Report on the “Development Strategy for Local Self-Government in the Republic of Slovenia until 2020.* [84]
- Council of Europe (2017), “Local Democracy in Iceland”, <https://www.coe.int/en/web/congress/-/local-democracy-in-iceland>. [85]
- Council of Europe (n.d.), “News 2018 - Local and regional democracy in Latvia”, <https://www.coe.int/en/web/portal/-/local-and-regional-democracy-in-latvia>. [89]
- Council of Ministers of Bulgaria (2007), *A Study on EU Member States’ Practices with Two Levels of Functioning Local Government*, http://self.government.bg/decentralization_counsel/analytic_reports/?id=123. [106]
- David, E. (2020), “Debating regionalisation in Romania. Historical review and current draft laws on territorial administration”, *Forschungshorizonte Politik und Kultur (FPK)*, Vol. 4, https://www.researchgate.net/publication/343713356_Debating_Regionalisation_in_Romania_Historical_Review_and_Current_Draft_Laws_on_Territorial_Administration. [97]
- Djildjov, A. (2006), “The saga of decentralisation at regional level”, *Public Administration Magazine* 1-2, pp. 26-36. [103]
- EC (2018), *Nomenclature of Territorial Units*, European Commission, <https://eur-lex.europa.eu/legal-content/FR/ALL/?uri=CELEX:02003R1059-20180118&qid=1519136585935>. [110]
- EC (2018), “Regional Development and Cohesion Policy 2021-2027”, European Commission, https://ec.europa.eu/regional_policy/en/newsroom/news/2018/05/29-05-2018-regional-development-and-cohesion-policy-2021-2027. [115]
- EU (2014), *Integrated Territorial Investments, Cohesion Policy 2014-20*, European Union, http://ec.europa.eu/regional_policy/. [2]
- EU Committee of the Regions (2020), *Division of Powers - Portugal*, <https://portal.cor.europa.eu/divisionpowers/Pages/Portugal-intro.aspx>. [93]
- Ezcurra, R. and P. Pascual (2008), “Fiscal decentralization and regional disparities: Evidence from several European Union countries”, *Environment and Planning*, Vol. 40/5, pp. 1185-1201, <http://dx.doi.org/10.1068/a39195>. [4]
- Forbes Bulgaria (2020), “Raising local taxes?”, <https://forbesbulgaria.com/2020/02/03/%D0%B2%D0%B4%D0%B8%D0%B3%D0%B0%D0%BD%D0%B5-%D0%BD%D0%B0-%D0%BC%D0%B5%D1%81%D1%82%D0%BD%D0%B8%D1%82%D0%B5-%D0%B4%D0%B0%D0%BD%D1%8A%D1%86%D0%B8/>. [68]
- French Senate (2019), “On the under-use of EU funds in France (in French only)”, http://www.senat.fr/rap/r18-745/r18-745_mono.html#toc186. [116]
- French Senate (2003), *Projet de loi organique relatif à l’expérimentation par les collectivités territoriales*, <https://www.senat.fr/rap/l02-408/l02-40810.html>. [15]

- Government of Bulgaria (2016), “National Action Plan for Open Government - Open Cities (draft)”, https://www.opengovpartnership.org/wp-content/uploads/2017/05/NAP3-Bulgaria_EN_0.pdf. [34]
- Government of Bulgaria (2014), *National Strategy for the Development of the Public Procurement Sector in Bulgaria over 2014-2020*, https://www2.aop.bg/wp-content/uploads/2019/08/Strategy_EN.pdf. [41]
- Government of Bulgaria (2014), *Working for The People: Public Administration Development Strategy 2014-2020*, <http://www.strategy.bg/FileHandler.ashx?fileId=4647>. [30]
- Gravier, J. (1947), *Paris et le désert français*. [79]
- Hawkesworth, I. et al. (2009), “Budgeting in Bulgaria”, *OECD Journal on Budgeting*, Vol. 9/3, <https://doi.org/10.1787/budget-9-5kmh6dn6n4d7>. [46]
- Hlepas, N. et al. (2018), *Sub-Municipal Governance in Europe: Decentralization Beyond the Municipal Tier*. [29]
- Hooghe, L., G. Marks and A. Schakel (2009), *The Rise of Regional Authority: A Comparative Study of 42 Democracies (1950-2006)*. [77]
- Hooghe, L. et al. (2016), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press. [78]
- Houbenova-Delisivkova, T. (2017), “Financing regional development and competitiveness: Problems and challenges at macro and micro level in Bulgaria”, <http://www.revecon.ro/articles/2017-1/2017-1-5.pdf>. [57]
- IME (2018), “Local taxes continue to increase”, Institute for Market Economics, <https://www.regionalprofiles.bg/bg/news/local-taxes-continue-to-increase/>. [66]
- IME (2016), “The successes and failures of Bulgarian municipalities”, Institute for Market Studies, <https://ime.bg/en/articles/the-successes-and-failures-of-bulgarian-municipalities/#ixzz6SjrsE9lr>. [40]
- IME (2013), *Tax Policies at the Local Level - Regional Profiles*, Institute for Market Economics, <https://www.regionalprofiles.bg/en/ltp2013/>. [70]
- IMF (2020), “Bulgaria: Staff Concluding Statement of the 2020 Article IV Mission - 14 February 2020”, International Monetary Fund, <https://www.imf.org/en/News/Articles/2020/02/14/mcs021420-bulgaria-staff-concluding-statement>. [56]
- Institute for Market Economics (2019), “Decentralization: 8+2 > 10+2”, <https://www.regionalprofiles.bg/en/news/decentralization-82-102/>. [65]
- Ivanov, L. (2017), *NUTS II Regions of Bulgaria - Inter-Ministerial Working Group on the Development of Options for the Redrawing of Bulgarian NUTS Level 2 Boundaries*. [111]
- Kalcheva, D. (2017), “Access to debt financing – Opportunities for improvement of the investment capacity of Bulgarian municipalities (for the period 2003-2015)”, *Economic Alternatives* 3, pp. 390-404, <https://www.unwe.bg/uploads/Alternativ>. [71]

- Kalcheva, D. and P. Nenkova (2019), "Survey of local government investments - Dynamics and sources of financing: The cases of Bulgaria and North Macedonia", https://www.nispa.org/files/conferences/2019/e-proceedings/system_files/papers/study-of-local-investment-kalcheva.pdf. [64]
- Kalfova, E. (2019), "Regional policy and regional governance - The Bulgarian institutional reform that did not take place", *Public Policy Bulgaria*, Vol. 10/4, pp. 33-57. [105]
- Kalfova, E. (2017), "Inter-municipality cooperation in Bulgaria - Between the necessity and impact of EU policies", 25th NISPAcee Annual Conference. [42]
- Kalimeri, V. (2018), "The Kallikrates vs the Kapodistrias Reforms in Greece: A story of moderate success", *Politics in Central Europe*, Vol. 14/1, pp. 65-76, <http://dx.doi.org/10.2478/pce-2018-0003>. [123]
- Kitchen, H. and E. Slack (2006), "Providing public services in remote areas", in Bird, R. and F. Vaillancourt (eds.), *Perspectives on Fiscal Federalism*, World Bank Institute, Washington, DC. [91]
- Koleva, S. (2019), "Evaluating the factors for fiscal stability of rural municipalities: The case of Bulgaria", *Problems of Agricultural Economics / Zagadnienia Ekonomiki Rolnej*, <http://dx.doi.org/0.30858/zer/112131>. [73]
- Legislative Portal of Romania (2004), *LAW no. 315 on regional development in Romania (updated to 27 November 2004 *)*, <http://legislatie.just.ro/Public/DetaliuDocument/53040>. [96]
- Ministère de la Cohésion des Territoires et des Relations avec les Collectivité Territoriales (2020), *Projet de loi "3D" : Décentralisation, différenciation et déconcentration*, <https://www.cohesion-territoires.gouv.fr/projet-de-loi-3d-decentralisation-differenciation-et-deconcentration>. [16]
- Ministère de l'Intérieur (2020), *PLF 2020 - Administration générale et territoriale de l'Etat*. [120]
- Ministry of Economic Development and Technology of Slovenia (2020), *Promoting Regional Development*, <https://www.gov.si/teme/spodbujanje-regionalnega-razvoja/>. [83]
- Ministry of Environmental Protection and Regional Development of Latvia (2020), *Latvia's Experience in Regional Development Territorial Reforms and Financial Support Measures*. [88]
- Ministry of Foreign Affairs of Finland (2020), *The Special Status of the Åland Islands*, <https://um.fi/the-special-status-of-the-aland-islands>. [94]
- Ministry of Investment and Economic Development of Poland (2019), *Regionalisation Processes in Poland*. [27]
- Ministry of the Interior of the Republic of Lithuania (2017), *Lithuanian Regional Policy White Paper for Harmonious and Sustainable Development 2017-2030*, https://vrm.lrv.lt/uploads/vrm/documents/files/White_Paper.pdf. [98]
- MRDPW (2019), *Regional Development Policy and Implementation Approach - Meeting with DG REGIO*, Ministry of Regional Development and Public Works. [117]

- MRDPW (2019), *Structural Reform Support Programme 2017-2020 Regulation (EU) Request for Support (Article 7 of the SRSP Regulation) - Support to the Process of Decentralisation in Bulgaria*, Ministry of Regional Development and Public Works. [44]
- MRDPW (2016), *Decentralisation Strategy 2016-2025 of Bulgaria*, Ministry of Regional Development and Public Works. [11]
- NAMRB (2018), *Practical Handbook on Educational Topic: Local Taxes and Fees*, National Association of Municipalities of the Republic of Bulgaria, https://obuchenie.namrb.org/pluginfile.php/230/mod_folder/content/0/8%20Практически%20наръчник%20по%20обучителна%20тема%20Местни%20данъци%20и%20такси.pdf?forcedownload=1. [59]
- NAMRB (2017), *Missions and Activities*, Official Website and Brochure, National Association of Municipalities of the Republic of Bulgaria, <https://www.namrb.org/mission-and-activities>. [18]
- Nenkova, P. (2019), "An analysis of equalizing capacity of state transfers for local government activities in Bulgaria", *Economics Alternatives* 4, pp. 627-640. [67]
- Nyikos, G. and R. Talaga (2014), "Cohesion policy in transition – Comparative aspects of the Polish and Hungarian system of implementation", *Comparative Law Review*, <https://pdfs.semanticscholar.org/62bc/66b4a9b161640ed5d02aef5db410e017225f.pdf>. [114]
- OECD (2021), *OECD Economic Surveys: Bulgaria 2021: Economic Assessment*, OECD Publishing, Paris, <https://doi.org/10.1787/1fe2940d-en>. [55]
- OECD (2020), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/fea62108-en>. [5]
- OECD (2020), *Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth*, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9ef55ff7-en>. [26]
- OECD (2020), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris. [80]
- OECD (2020), *Regional Government Finance and Investment Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=RFD>. [95]
- OECD (2020), *The Future of Regional Development and Public Investment in Wales, United Kingdom*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/e6f5201d-en>. [21]
- OECD (2020), "The territorial impact of COVID-19: Managing the crisis across levels of government", *Tackling Coronavirus (COVID-19): Contributing to a Global Effort*, OECD Publishing, Paris, <https://doi.org/10.1787/d3e314e1-en>. [19]
- OECD (2019), *Effective Public Investment Across Levels of Government: Implementing the Principles*, OECD, Paris, https://www.oecd.org/effective-public-investment-toolkit/OECD_Public_Investment_Implementation_Brochure_2019.pdf. [43]

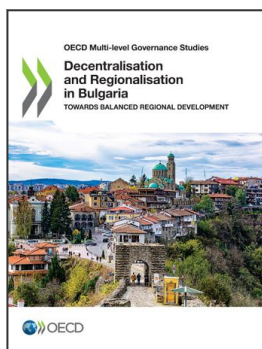
- OECD (2019), *Key Data on Local and Regional Governments in the European Union (brochure)*, OECD, Paris, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf. [112]
- OECD (2019), *Making Decentralisation Work: a Handbook for Policy Makers*, OECD Publishing, Paris,, <https://doi.org/10.1787/g2g9faa7-en>. [35]
- OECD (2019), *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/g2g9faa7-en>. [9]
- OECD (2019), “Making multi-level governance and decentralisation work for regional development in Bulgaria - Study questionnaire”, OECD, Paris. [63]
- OECD (2019), *OECD Regional Outlook 2019: Leveraging Megatrends for Cities and Rural Areas*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264312838-en>. [1]
- OECD (2019), “Strengthening governance of EU funds under cohesion policy: Diagnosis and roadmap for the managing authority of OP regions in growth in Bulgaria”, Unpublished, OECD, Paris. [121]
- OECD (2019), *Subnational Governments in OECD Countries: Key Data (2019 Edition)*, OECD, Paris, <https://www.oecd.org/regional/regional-policy/datacollectionandanalysis.htm>. [113]
- OECD (2018), *Asymmetric Decentralisation: Policy Implications in Colombia*, OECD Multi-Level Governance Studies, OECD, Paris, http://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf. [25]
- OECD (2018), *Practical Methodological Guide for the World Observatory on Subnational Government Finance and Investment*, OECD, Paris. [90]
- OECD (2018), *Subnational Public-Private Partnerships: Meeting Infrastructure Challenges*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264304864-en>. [72]
- OECD (2017), “Country profile - Poland - Multi-level governance of public investment 2017”, <https://www.oecd.org/effective-public-investment-toolkit/Poland.pdf>. [28]
- OECD (2017), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264279049-en>. [6]
- OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264272866-en>. [8]
- OECD (2017), *OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy*, OECD Territorial Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264268883-en>. [14]
- OECD (2017), *Recommendation of the Council on Open Government*, OECD, Paris, <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0438>. [32]
- OECD (2016), *Making Cities Work for All: Data and Actions for Inclusive Growth*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264263260-en>. [52]

- OECD (2016), *Making the Most of Public Investment in Colombia: Working Effectively across Levels of Government*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264265288-en>. [39]
- OECD (2016), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264260245-en>. [48]
- OECD (2015), *Governing the City*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264226500-en>. [50]
- OECD (2015), *The Metropolitan Century: Understanding Urbanisation and its Consequences*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264228733-en>. [51]
- OECD (2014), *OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264201415-en>. [53]
- OECD (2014), *Recommendation of the OECD Council on Effective Public Investment Across Levels of Government*, OECD Publishing, Paris, <https://www.oecd.org/effective-public-investment-toolkit/recommendation-effective-public-investment-across-levels-of-government.htm>. [38]
- OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264197022-en>. [37]
- OECD (2013), *OECD Urban Policy Reviews, Chile 2013*, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264191808-en>. [122]
- OECD (2013), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Rural Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264204812-en>. [47]
- OECD (2011), *OECD Territorial Reviews: Slovenia 2011*, OECD Territorial Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264120587-en>. [82]
- OECD (2010), *OECD Territorial Reviews: Sweden 2010*, OECD Territorial Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264081888-en>. [13]
- OECD (2010), *Regional Development Policies in OECD Countries*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264087255-en>. [81]
- OECD (2007), *Linking Regions and Central Governments: Contracts for Regional Development*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264008755-en>. [23]
- OECD (forthcoming), "A review of local government finance in Israel: reforming the Arnona system", OECD, Paris. [62]
- OECD (forthcoming), *OECD Territorial Reviews: Regional Policy for Greece Post-2020*, OECD Publishing, Paris. [124]
- OECD/KIPF (2016), "Fiscal federalism 2016: Making decentralisation work", in *Reforming the Tax on Immovable Property*. [61]
- OECD/UCLG (2020), *SNG-WOFI Database*, <http://www.sng-wofi.org> (accessed on July 2020). [10]

- OECD/UCLG (2019), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, OECD, Paris, <http://www.sng-wofi.org>. [20]
- OECD/UCLG (2019), *2019 Report of the World Observatory on Subnational Government Finance and Investment - Key Findings*, OECD, Paris, <http://www.sng-wofi.org>. [76]
- SEGA (2019), “Not taxes, but low tax assessments are a problem for municipalities”, <https://www.segabg.com/node/107462>. [69]
- Stefanova, M. (2018), “The municipalities in Bulgaria - Local authority and self-government [ОБЩИНИТЕ В БЪЛГАРИЯ - МЕСТНАТА ВЛАСТ И САМОУПРАВЛЕНИЕ]”, *Public Policies*, Vol. 9/2, pp. 84-107. [17]
- Stoilova, D. (2007), “Fostering Local Development in Bulgaria: The Need of Fiscal Decentralisation”, in Giguère, S. (ed.), *Local Innovations for Growth in Central and Eastern Europe*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264038523-15-en>. [119]
- Stoychev, K. (2018), “Regionalization of Bulgaria: Socio-economic development and geopolitical identification”, *Public Policy*, Vol. 9/4. [109]
- Thorpe, K. (2019), *City and Devolution Deals and Local Growth Policy in the United Kingdom*. [54]
- Twining project BG 2006 et al. (2009), “Strengthening the capacity of the structures of the Bulgarian government to monitor and analyze key policies and development of coherent strategic decisions: Discussion materials about the reform of regional level management”, <http://www.strategy.bg/Publications/View.aspx?lang=bg-BG&id=111>. [107]
- UPEE (2020), “Opinion of UPEE on the progress of the Republic of Bulgaria in the implementation of the policies for multilevel governance and decentralization”. [33]
- Veiga, L. (2019), “Multi-level governance in Portugal”, Presentation during an OECD-MRDPW workshop organised in Sofia, September 2019. [101]
- Veiga, L. and C. Pedro (2019), “Portuguese multi-level governance studies”, Unpublished manuscript. [100]
- Zankina, E. and B. Gurov (2018), *Nations in Transit 2018: Bulgaria Country Report*, Freedom House, https://www.researchgate.net/publication/324604235_Nations_in_Transit_2018_Bulgaria_Country_Report. [74]

Note

¹ The Nomenclature of Territorial Units for Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants); NUTS 2 region (800 000 to 3 million inhabitants); and NUTS 3 region (150 000 to 800 000 inhabitants) (OECD, 2010^[81]).



From:
Decentralisation and Regionalisation in Bulgaria
Towards Balanced Regional Development

Access the complete publication at:
<https://doi.org/10.1787/b5ab8109-en>

Please cite this chapter as:

OECD (2021), "Avenues towards place-based regional policy and governance", in *Decentralisation and Regionalisation in Bulgaria: Towards Balanced Regional Development*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/5427a898-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.