ROADMAP FOR REFORMS IN BULGARIA

Support the decentralisation reform process across all levels of government

22 May 2024

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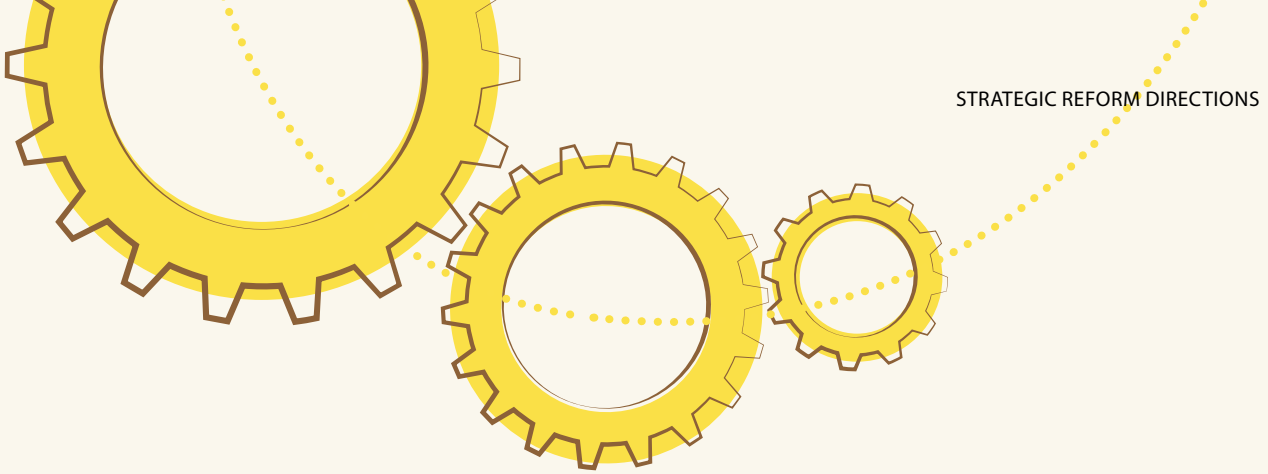
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LIST OF ABBREVIATIONS

BCI	BUDGET FOR CITIZEN INITIATIVES
BEC	BULGARIAN ECONOMIC CHAMBER
BFC	BUDGET FOR CITIZEN
BICA	BULGARIAN INDUSTRIAL CAPITAL ASSOCIATION
CDSG	COUNCIL FOR DECENTRALIZATION OF STATE GOVERNANCE
CEIB	CONFEDERATION TO THE EMPLOYERS AND THE INDUSTRIALISTS IN BULGARIA
COM	COUNCIL OF MINISTERS
CSO	CIVIL SOCIETY ORGANISATION
CT	COEFFICIENT
EU	EUROPEAN UNION
GCCA	GEODESY, CARTOGRAPHY AND CADASTRE AGENCY
GDP	GROSS DOMESTIC PRODUCT
LBT	LOCAL BUSINESS VALUE TAX
MLSP	MINISTRY OF LABOR AND SOCIAL POLICY
MOC	MINISTRY OF CULTURE
MOES	MINISTRY OF EDUCATION AND SCIENCE
MOF	MINISTRY OF FINANCE
MRDPW	MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC WORKS
NAMRB	NATIONAL ASSOCIATION OF MUNICIPALITIES IN THE REPUBLIC OF BULGARIA
NGO	NON-GOVERNMENTAL ORGANISATION
NSI	NATIONAL STATISTICAL INSTITUTE
OECD	ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
PIT	PERSONAL INCOME TAX
SEN	STANDARD EXPENDITURE NEEDS
SLO	STANDARD LEVEL OF OUTPUT
UPEE	UNION FOR PRIVATE ECONOMIC ENTERPRISES
VAT	VALUE ADDED TAX



Strategic reform directions

Fiscal decentralisation and improvement of local financial management are parts of the comprehensive public service reform. Greater municipal autonomy aims to deliver high quality services in an effective and equitable way. In Bulgaria the efficient municipal service provision and regional development system are targeted by government strategies and recommendations of various international organisations. They all aim to improve the main factors of local public service management: political framework and decision making, administrative-territorial structures, local functions, competencies and the municipal finances.

The most important goals of decentralisation in Bulgaria are to gradually transform the accountability mechanisms and to increase local autonomy. They can be achieved by supplementing the present hierarchical administrative dependence of municipalities with influential institutions of local social accountability. Accountability and subsequently trust towards autonomous municipalities can be enhanced by transforming the rigid separation of delegated and own functions and the related parallel financing mechanisms.

Implementation of these strategic goals requires coordinated efforts. Main reform actions should target the following key areas of fiscal decentralisation: Allocating more powers to municipalities through sectoral decentralisation, that is by transforming administrative relations and hierarchical structures in public service provision. Move from central government of municipal leadership in an open and inclusive local decision-making environment. It should be combined with transformation of municipal finances aiming to increase fiscal autonomy by changing grant allocation techniques and enhancing own-source revenue raising powers.

This TSI project on developing fiscal decentralisation and improving local financial management in Bulgaria focuses only on a limited number of these reform areas. The six priority areas exposed by the Policy Review Report[2] identified the main actions and the directions of reforms. Three of these interrelated decentralisation reform areas were further elaborated by the Policy Advice Document[1] .

The following priority areas of a decentralisation reform strategy are targeted by this roadmap:

1. Modification of municipal competencies and promoting inter-municipal cooperation. Review and modification of the boundaries between delegated and own functions. It aims to transform the relationship between national and local governments. Joint public service delivery and inter-municipal cooperation are supported by fiscal incentives and local capacity development.

[1] https://rm.coe.int/developing-fiscal-decentralisation-and-improving-local-financial-manag/1680b0df26

[2] https://rm.coe.int/fiscal-autonomy-and-financial-management-of-local-administrations-in-b/1680b0df28

2. Enhanced local tax base. Recommendations on real estate tax reform by updating property base value and assessment, transforming the municipal patent tax to a proper local business value tax.

3. Developing task-based intergovernmental transfers. For improving predictability, stability of inter-governmental transfers which increase local budgetary autonomy; alternative models of tax sharing and non-conditional grants are to be explored and introduced.

4. Improved transparency and performance management in local budgeting. Transparency of local finances and service management is enhanced through benchmarking. In cooperation with NAMRB a database combining financial and non-financial indicators to monitor municipal service performance should be developed.

5. Advanced communication of local budgets and public participation in budgeting. Better instruments should be created for understanding local budgets, facilitating citizens' participation through various forms of «Budget for Citizens». Both central and local authorities should be involved in the process.

6. Support the decentralisation reform process across all levels of government. Effective coordination, monitoring and evaluation mechanism should be established for decentralisation and multilevel governance through Council of Ministers' decree. All levels of government, socio-economic partners and citizens' organisations are to be involved in an influential management body.

Roadmap design

This concise and sequenced roadmap is the basis of future actions proposed under the six priority areas of a decentralisation strategy. It aims to provide systematic approach to ensure effective implementation and to achieve successful outcomes. The roadmap intends to guide the reform process across all levels of government.

The six specific areas of future reform are interrelated, and their parallel implementation will mutually reinforce each other. The roadmap aims to contribute to program design and to support a future workplan for achieving these goals. It aims to support planning the government actions and the aligned administrative procedures and organisational capacities. On each reform area four aspects of the proposed actions are presented:

a) What is the essence of the recommendation: a summary of issues, approach and policy objectives.

b) How it can be achieved: proposed measures and instructions on key practical steps to initiate and to introduce them, together with milestones (outputs) and where possible with key performance indicators for measuring progress.

c) When and for how long reform steps are to be implemented: sequencing the proposed changes, time needed for policy development and implementation.

d) Who is responsible for execution and enactment: proposing primary government units and contributory entities who will be responsible for managing policy design and actual introduction of proposed measures, actions.

ROADMAP STRUCTURE AND FORMAT

Discussion of each priority area of the roadmap is organised along the following standard structure and headings, subheadings:

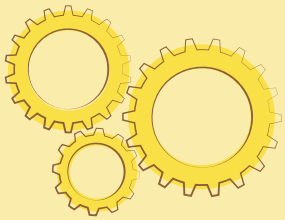
1. Priority area # 1



Reform objective and proposals

a) Objective No. 1 of the priority area # 1.

(i) Specific component of the Objective No. 1



Implementation measures and actions

A) MEASURES AND ACTIONS PROPOSED TO IMPLEMENT OBJECTIVE 1.

(I) COMPONENT OF MEASURE TO IMPLEMENT OBJECTIVE NO. 1

▸ Steps needed for implementing component
Milestones or Key Performance Indicators of component (i)



Timing

Time needed for implementing the proposed measures and actions



Responsible organisation

Government unit with primary responsibility
and other key ministries, agencies

1. Modification of municipal competencies and promoting inter-municipal cooperation

Fiscal decentralisation is part of the wider reform supporting efficient and equitable public service provision. Four key factors influence municipal service management: (i) political mechanisms, (ii) administrative-territorial structure, (iii) actual scope and type of services under municipal control and (iv) financing and financial management practices. This proposed reform package targets only selected components of these four areas of a comprehensive decentralisation programme. Those high priority areas were selected, which are the most directly connected to fiscal decentralisation.



Reform objective and proposals

First, the municipal services and competencies should be reviewed in order to modify *how delegated and own municipal services are separated*. Boundaries of delegated and own functions should be transformed by changing the relationship between national and local governments. Wider scope of municipal competencies will result greater local autonomy, which increases effectiveness and efficiency of municipal service provision.

Secondly, inter-municipal *cooperation* should be supported by creating fiscal incentives and through diverse forms of capacity development for joint service management.

A) REVIEW MUNICIPAL FUNCTIONS, REDEFINE ATTRIBUTIONS

(i) re-design the boundaries of delegated and own municipal functions*:* the present formal separation of delegated local services from the group of devolved own functions is partly justified by their different financing needs. Delegated services (e.g. public education) are locally provided public services with general access, so their provision requires standard (minimum) funding by the national budget. In the case of fully devolved services (e.g. communal services) diverse municipal own revenue bases and consequently different service performance, management options are accepted. However, the two groups of delegated and devolved services are hardly separable. Efficient and accountable local service management needs integrated municipal decisions. The municipal practice when own revenues are used for supplementing the grants of delegated services should be acknowledged.

(ii) abolishing the "split budget" model and move towards limited use of earmarked grants. Gradual elimination of the separate financing for the two groups of locally provided public services requires the introduction of new funding mechanisms. This major and deep reform action needs careful preparation and will be implemented in a longer period through modelling and experimentation.

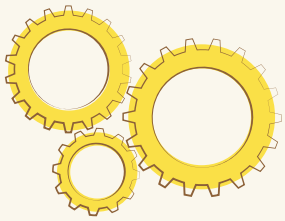
B) REALLOCATION OF COMPETENCIES AND POWERS BY SERVICE COMPONENTS

(i) identifying the components of public service allocation: national government and municipal responsibilities and tasks should be specified in the case of all public services by focusing on key areas of service management and regulations. Responsibilities have to be identified for policy making, labour regulations (employment, salaries), organisational forms of service provision (including ownership of assets), professional standard setting, inspection and supervision, legal regulation on service eligibility and financing rules. The role of national and local governments will be different in the case of each service component.

(ii) assessing the central-local powers along the main allocation criteria of public service provision. National government and municipal competencies in the above-mentioned areas of service provision should be allocated by taking into account the following factors: government structure (tiers, deconcentrated units), economic factors (mainly economies of scale), accountability mechanisms (administrative control, participation, transparency) and geography (natural boundaries, access). In a comprehensive deregulation programme, the central and local government responsibilities, competencies and the relationship of the two government tiers can be gradually transformed.

C) ENHANCE INTER-MUNICIPAL COOPERATION

(i) incentives and support mechanisms introduced for promoting cooperation in municipal service provision. Chapter 8 of the Local Government Act properly defines the aims, principles, areas and procedures of municipal cooperation. In addition, there is another regime of inter-municipal cooperation in the Social Services Act. It can be further improved by introducing new grant allocation mechanism, which creates incentives for joint, shared local service management. Making the inter-municipal framework operational municipalities need assistance and capacity development in key areas of joint local service provision, primarily in municipal solid waste management, social service provision and local administration.



Implementation measures and actions

A) REVIEW MUNICIPAL FUNCTIONS, REDEFINE ATTRIBUTIONS

(i) assessment of legal, administrative-regulatory and financing mechanisms, which prevent integrated, flexible management of all locally provided services. This deregulation program should be implemented by sectors in cooperation with the line ministries, Ministry of Finance, other government agencies (e.g. National Audit Office) and the local governments association. The review should focus on the conditions of enhanced municipal autonomy and local discretion of present delegated municipal functions and competencies.

(ii) setting the principles and goals of new municipal financing methods and grant allocation techniques. Based on the functional review, requirements of financing municipal services should be defined. They target primarily sound and diverse resources of locally provided services, create incentives for efficient service management, combine them with equalisation mechanism and ensure stable, predictable municipal resources.

KEY PERFORMANCE INDICATOR/MILESTONE	STARTING YEAR (T)	T+1
Review method and organisational form of implementation are set	X	
Review for deregulation purposes of key delegated local services: % of municipal services	50%	50%
Design of new municipal financing methods (see priority area 3.)	X	X

B) REALLOCATION OF COMPETENCIES AND POWERS BY SERVICE COMPONENTS

▶ re-design allocation of public functions to municipalities by using agreed criteria. This medium-term action requires active cooperation among all interested ministries, government agencies, representatives of service organisations (e.g. unions), municipal association, civil society organisations and the academia. Principles of re-assignment should be elaborated and agreed by the key partners. Political consensus is needed on the main goals of a deregulation programme, which supports the future decentralization. Organisational and management structure should be set up for coordinating this comprehensive policy development action.

C) ENHANCE INTER-MUNICIPAL COOPERATION

▶ designing grant allocation and financing mechanisms which support inter-municipal cooperation. Making municipalities less dependent on earmarked, specific grants will automatically raise the need for flexible forms of service provision. Cooperation and other alternative forms of service management will be more widely used when general grants or shared taxes have larger proportions in the local revenue mix. Specific grants might be also conditioned on inter-municipal cooperation, for example in the case of capital investments or EU funded regional services. Further strengthening of municipal own source revenue raising autonomy will make municipalities more interested in efficient service management through cooperation.

▶ technical assistance and support to development of inter-municipal cooperation schemes in all service areas. Typical legal and organisational forms of cooperation can be standardised and disseminated among municipalities. They might range from simple contracts to institutionalised forms of cooperation under the private or the public law and adjusted to the legal environment of Bulgaria. Management schemes are needed for joint decision making of independent municipal entities. Financing methods should support shared municipal contributions, price setting, financing investment and other financial management decisions (e.g. borrowing).

MILESTONES	STARTING YEAR (T)	T+1
Financing methods are developed and legislated	X	X
Technical assistance programs developed	X	
Delivery mechanisms and funding sources are established		X



Timing

a) Review municipal functions, redefine attributions	2 years
b) Reallocation of competencies and powers by service components	Min. 2 years
c) Enhance inter-municipal cooperation	2 years



Responsible organisation

A) GOVERNMENT UNIT WITH PRIMARY RESPONSIBILITY: COUNCIL OF MINISTERS, OR APPOINTED ENTITY (COMMISSIONER/PLENIPOTENTIARY)

B) KEY MINISTRIES AND GOVERNMENT AGENCIES:

- Ministry of Regional Development and Public Works
- Ministry of Finance
- National Association of Municipalities
- All interested line ministries

2. Enhanced local tax base

Local governments are predominantly financed by national budget transfers and subsidies. Local taxes produce comparatively low amount: 0.89% of GDP, which is approximately one quarter of OECD country average[1] . Collection rate of the major municipal taxes is higher in the more affluent regions and in larger municipalities.

Municipal own taxes and fees are regulated in great details. The present grant allocation practices do not create sufficient incentives for local own source revenue raising. Local fiscal autonomy and fairness in the Bulgarian intergovernmental fiscal relations can be improved by increasing municipal tax base and enhancing autonomy in the case of real estate tax and patent tax.



Reform objective and proposals

A) REAL ESTATE TAX REFORM

Real estate tax reform has already been initiated by NAMRB in the following areas:

(i) adjusting the base value in the assessment formula to the house price index. Regular re-adjustment of the base value to the real estate market changes will make the tax base assessment formula more accurate, thus will increase municipal revenues and improve fairness in taxation. The larger municipalities might benefit more from the higher property tax revenue, while a newly introduced agricultural land tax will increase the revenues more of the smallest, rural municipalities.

(ii) incorporating a new correction coefficient (Ct) on the access to public transportation in urban municipalities. This correction coefficient will also improve the accuracy of the tax base assessment.

(iii) allowing municipality to differentiate real estate tax rate within its territory by settlements or areas and by property type. It is assumed that rates will be higher in the centres and remain at the present level (or lower) in the outskirts or in rural localities.

[1] See SNG WOFI country profile and tax autonomy indicators

(iv) municipal tax administration should be supported by information on the reported real estate prices provided by the national property register. Even if these prices do not match the actual sales value, they reflect the trends on the real estate market. This information, supplemented by sample survey data will support more sophisticated local tax policy design. Municipal tax administration needs help and capacity development in adapting and using computer assisted mass appraisal techniques and other forms of property valuation.

(v) new real estate taxation should meet the income policy objectives. Drastic increase in the local tax burden can be limited by gradual introduction of the new basic value. Alternatively, the maximum municipal rates might be reduced for a transitionary period (e.g. five years), when it reaches the present rate by the end of the period, only.

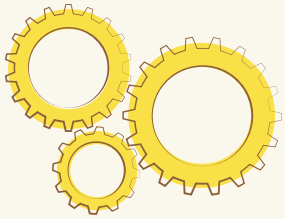
B) LOCAL BUSINESS VALUE TAX

(i) Patent tax is proposed to be transformed to a local business value tax (LBT) in two ways. LBT is levied above a nationally set threshold (e.g. at the VAT base of BGN 100,000). These larger businesses are to be taxed according to their net turnover. Local business tax base is calculated by deducting the input costs from the gross business turnover (total sales). The small businesses will continue to be charged by the lump-sum fee differentiated by sectors, activities. The two different groups of local business tax regimes should meet the test of EU prohibition on state aid.

(ii) The actual LBT rates can be defined locally within a range set nationally by law. The proposed rates for modelling are 0.1%-2%, which are to be further tested by using the average (middle) rate.

(iii) Local business tax administration should be supported by information from the national tax office, which collects the corporate income tax.

(iv) Local taxation should be harmonised with the economic policy objectives for keeping the aggregate tax burden of larger businesses under control. It can be implemented by making local business tax deductible from the corporate income tax or maximising the local tax as a percentage of profit tax.



Implementation measures and actions

Sound proposals on reforming real estate taxation and local business value tax require legislative changes with an impact assessment of the targeted reform actions. Beyond drafting regulations and amending legislation, implementation also encompasses support and capacity development in tax administration.

A) REAL ESTATE TAX REFORM

(i) defining adjusted base value in the tax assessment formula:

▶ mulated average house price index is collected from the national statistical office (option 1.) or from the disaggregated, municipal level real estate transaction reports (option 2.). The latter one can be found in property transfer contracts, or they are collected by real estate surveys.

▶ impact of the new base value on real estate tax revenue is estimated by the average rate under two scenarios: a) same rate for all municipalities or b) different actual average rates of the past year.

▸ their impact is assessed by municipality size, type and regions, comparing the present and the estimated real estate taxes.

(ii) review the present base value correction coefficients:

▸ introducing the public transportation-based correction coefficient (Ct) by collecting information on actual (present) prices of real estate (houses or apartments of similar characteristics) in a group of municipalities of different types.

▸ within a sample, the real estate units are evaluated by distance to public transportation.

▸ public transportation coefficient (Ct) is calculated as the ratio of the square meter prices by real estate groups (e.g., walking distance to public transportation is less than 10 minutes, 10-20 minutes, more than 20 minutes) based on the sample data collected.

▸ outdated correction coefficients, which do not differentiate property prices are changed or dropped.

(iii) impact assessment of tax rate differentiation by zones or settlements:

▸ different rates are set in a sample of large urban municipalities by zones and in rural municipalities by localities of different types (e.g., urban centre and its suburban neighbourhoods). It is assumed, that rates will be higher in the centres and remain at the present level (or lowered) in the outskirts and rural localities.

▸ increase in total municipal real estate tax revenues are estimated with diverse rates levied on the present tax bases.

▸ their impact is evaluated by municipality size, type and regions, comparing the present and the estimated real estate taxes.

(iv) designing a municipal agricultural land tax

▸ defining the options for assessing the value of agricultural land and potential taxpayers (landowners or users).

▸ modelling agricultural land tax rate minimum and maximum limits for estimating potential municipal revenue flow, the impact on landowners' income and agricultural production.

▸ designing the tax administration procedures and planning the support needed for local tax administration (sharing information, developing capacities).

(v) building municipal databases and developing valuation capacities:

▸ connecting the municipal databases with the information provided by the National Revenue Agency, the Registry Agency, the Cadaster Agency, etc.

▸ supporting municipalities with property assessment tools and regular data collection on real estate transactions

▸ employment and training of additional municipal staff to implement the new local taxation system.

KEY PERFORMANCE INDICATOR	STARTING YEAR (T)	T+1	T+2	T+3
Real estate tax (immovable property tax) –collected as % of municipal own source revenues	30	33	36	39
Real estate tax - collected as % of municipal budget revenues	9	10	11	12

B) INTRODUCING LOCAL BUSINESS TAX:

(i) defining net turnover, as local business tax base:

▶ net turnover of businesses subject to VAT is estimated by municipalities as the basis of LBT

▶ turnover of VAT subjects is shared between company headquarter and its branches in different settlements or municipalities. These proportions are calculated by using financial reports or estimated by other measurable indicators (e.g. asset value, labour cost, employment)

▶ comparing estimated LBT to total company tax burden (CIT) for assessing LBT impact on profitability and growth

▶ National Revenue Agency databases are accessible, and information is directly linked to the municipal tax administration.

(ii) assessing LBT impact on municipal budget:

▶ simulation of diverse LBT rates for setting the range, e.g. minimum 0% or 0.1% up to maximum 2%

▶ impact is assessed by municipality size, type and regions (more refined for Sofia, South-Western region), comparing the present patent tax, total own source revenue and the estimated LBT

▶ refined impact assessment for taxes shared between company HQ and outside units by municipalities.

(ii) planning tax administration procedures and costs:

▶ analysing information sharing options between national and municipal tax offices

▶ designing new LBT levying, payment, collection process and enforcing procedures

▶ assessment of workload and costs of new municipal tax administration tasks

▶ options for supporting joint municipal tax offices for LBT administration

▶ assistance programs for municipalities to introduce transparent LBT policies through involvement of large local taxpayers.

Actual regulations on Local Business Tax will be developed in an iterative process of modelling, impact assessment and feedback evaluation.

KPI	STARTING YEAR (T)	T+1	T+2	T+3
Ratio of municipalities which levy patent tax/LBT (%)	0	20	50	60
Ratio of collected LBT as a % of total potential (0.5% of GDP)	0	40	60	70
Collected tax on local businesses as % of municipal budget	0.15	2	3	4



Timing

Implementation of the proposed local tax base reform is divided to three stages (minimum time required, in months):

(i) policy design with simulation, modelling and impact assessment:	6 months
(ii) legislation process with detailed planning of regulations in a transparent way	3 months
(iii) gradual introduction of new tax law, allowing sufficient time for learning and adjustment	12 months



Responsible organisation

A) GOVERNMENT UNIT WITH PRIMARY RESPONSIBILITY: MINISTRY OF FINANCE

B) PARTNER MINISTRIES, GOVERNMENT AGENCIES AND REPRESENTATIVE OF BUSINESS COMMUNITY:

- Ministry of Regional Development and Public Works: regional development
- National Tax Office: tax procedures and capacities
- NAMRB
- Ministry of Economy and Industry
- Bulgarian Economic Chamber (BEC); Bulgarian Industrial Capital Association (BICA); Confederation to the Employers and the Industrialists in Bulgaria (CEIB); Union for Private Economic Enterprises (UPEE).
- Ministry of Labour and Social Policy: social impact
- Registry Agency; Geodesy, Cartography and Cadaster Agency (GCCA); National Statistical Institute (NSI).

3. Developing task-based intergovernmental transfers

Municipal budgets are mostly financed by intergovernmental transfers and grants. In Bulgaria the current system of transfers are predominantly earmarked grants. They target the delegated functions and keep municipal spending under tight control. The general equalisation subsidies aim to compensate for resource imbalances, although they play a minor role. The practice of "non-budgeted" transfers during the fiscal year supplement these two regulated forms of financing.



Reform objective and proposals

Improvements of intergovernmental transfer system target three main objectives. Firstly, grants should guarantee an average (or minimum) level of services for local governments. They should recognise the differences in minimum (or standard) unit costs of services caused by special local needs, differentials in service costs, population size, geographic and economic conditions. Secondly, the diverging local fiscal capacity, that is revenue raising potential, should be also compensated. Thirdly, the intergovernmental transfer system has to create incentives for rational municipal spending, promoting efficient local service provision, and stimulate own source revenue raising.

A) RE-INTRODUCTION OF PERSONAL INCOME TAX SHARING

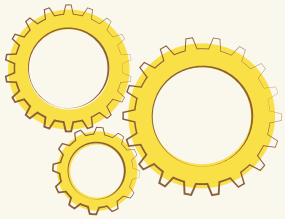
Rationale of revenue sharing is that it reflects the joint responsibility of national and local governments in public services provision. Personal income tax as a major national tax could produce significant municipal revenues. It is a stable revenue and when sharing rules are legislated by law it is a predictable source for the recipient municipalities.

It establishes an indirect connection between the local economy and the municipal budget, thus creates local incentives for efficient use of municipal resources. Tax sharing is a preferred mechanism in budget negotiations and for planning purposes, because it is not too complicated funding mechanism, and it is easy to understand. For keeping the national budget balanced, shared PIT should replace some of the present national budget grants (e.g. the earmarked specific grants or the grants annually provided after the adoption of the State Budget Act for the respective year).

B) DEVELOPING STANDARD EXPENDITURE NEEDS BASED TRANSFER SYSTEM

New forms of intergovernmental transfers - comprehensive or single service focused - aim to limit the distinction between delegated and own functions and to transform the end-of-year, discretionary grant allocation practice. High efficiency and fairness in grant allocation can be achieved with the equalisation of fiscal gap, i.e. the difference between standard expenditure needs and standard fiscal capacities.

Under this approach, the first step is to determine the funds to be distributed from the national budget. Then they are apportioned among the local governments using objective indicators of standard (average, typical) expenditure needs. Diversion from earmarked grants of delegated services will leave sufficient authority to line ministries through national budget planning, sectoral policy design with program-based financing techniques, assessment of service performance and sufficiency of available municipal resources.



Implementation measures and actions

A) INTRODUCE ALTERNATIVE FORM OF FINANCING THROUGH TAX SHARING

Personal Income Tax sharing should be built upon the experiences of financing municipalities before 2008, when tax sharing practice was abolished.

▸ planning alternative PIT sharing methods starts with impact assessment of tax sharing on the national budget in order to keep it balanced. This new local revenue source should be compensated by lower municipal grants (e.g. eliminating the specific year-end subsidies or partially decreasing the earmarked grants for municipal administration, economic activities, public works and communal services).

▸ evaluating two main tax sharing options¸ that is allocation by origin (place of residence of taxpayers) or by formula (using proxy indicators of PIT base and revenues). The origin-based tax sharing can be implemented by using the national tax rates or allowing local surcharges on the national tax base or as a percentage of levied national tax. Place of origin can be specified by the location of the company's headquarters or its branches. However, it is preferable to rely on the actual place of residence for each taxpayer, because it will direct the shared tax revenues to the municipality where the services are actually consumed.

▸ assessing local impact of revenue sharing by calculating the new shared municipal PIT revenue by comparing it with the grants received for delegated functions in diverse municipal groups of different population sizes and regions. It will help to determine the number and type of municipalities which lose or win with revenue sharing.

▸ introducing shared PIT based partial equalisation techniques. As shared revenues will differentiate municipal budgets, this method should be combined with equalisation techniques. Per capita shared PIT revenue is a good indicator for distributing a set pool of funds (vertical equalisation) or for re- allocating funds from the wealthier municipalities to the ones with lower PIT (horizontal equalisation).

▶ designing tax administration for proper PIT sharing by place of taxpayer residence. Municipal finance departments and tax offices should have a minimal role in administering the shared PIT. The main administrative tasks will be performed by the national tax authority, which has sufficient information through the taxpayers' identification documents. Critical condition is to properly track the place of permanent (or alternatively the temporary) residence of each employee or taxpayer (e.g. in the case of self-employed).

MILESTONES	STARTING YEAR (T)	T+1	T+2
Policy design on PIT sharing	X		
Developing tax sharing administration		X	
Evaluation of PIT sharing system			X

B) IMPROVE PREDICTABILITY BY INTRODUCING NEW GRANT ALLOCATION METHODS

The task is to establish a stable system of non-conditional grants to finance delegated functions. The significant amount of discretionary "non-budgeted allocations" would better be limited. Devolution of new functions to municipalities should be combined with additional financial resources.

▶ designing formulae which apply weights to relevant indicators of municipal expenditure needs. The indicators should capture the differences in the costs and amount of local services. The weighting should be set on the basis of objective measures of spending variations. A municipal database is established with fiscal and statistical information. Regression analysis capacity is developed for modelling.

▶ working group is set up for grant allocation reform design. Planning and piloting is carried out with the greatest transparency, involving all the main stakeholders - beyond experts. Officials from the relevant central authorities, representatives of the municipalities and their association must be involved and should contribute with their experiences and knowledge.

▶ actual testing of the SEN model options is implemented through the following steps: select a pilot function (e.g., education, health, or some other social function); specify the relevant explanatory variables on quantity of services produced and quantity of inputs; plan relevant cost variables (prices) for inputs; define context variables (number of inhabitants, surface of the municipality, length of the roads, number of settlements, altitude, etc.). Statistical analysis (clustering and regression) is carried out to calculate the weights assigned to the relevant independent variables. Continue with a trial-and-error experimentation, comparing the results with those of the present grants allocated to delegated functions.

▶ incorporating the experimented methodology in the regular budget planning procedures. Disseminating the tested methods and lessons learned through the working group membership. Designing manual and information materials for line ministries and local governments on standard expenditure needs based grant allocation. Building the new grant allocation formula design at the early stage of annual budgeting process, when preliminary budgetary projections are made.

▶ evaluate the Standard Levels of Output for local functions. Modelling a demand function with indicators (e.g., population by age, deprivation, population density, etc.) capturing differences in

local service outputs. This analysis would be used for benchmarking purposes, to identify best practices and to stimulate inefficient municipalities to improve their performance. It will also enhance the transparency and accountability of municipalities.

MILESTONES	STARTING YEAR (T)	T+1
Working group and analytical capacities are set up	X	
Models developed and tested		X
Results are built into regular budgeting procedures and disseminated		X



Timing

IMPLEMENTATION ACTIONS	TIME NEEDED
Setting up design capacity and coordination mechanism	3 months
Policy design of tax sharing and alternative grant allocation method	6 months
Modelling, combined with impact assessment	3 months
Legislation, drafting new budgeting rules and procedures	3 months
Information sharing for all interested ministries and the municipalities	3 months



Responsible organisation

A) GOVERNMENT UNIT WITH PRIMARY RESPONSIBILITY: MINISTRY OF FINANCE

B) MINISTRIES, GOVERNMENT AGENCIES AND PARTNERS INVOLVED:

- Line (sectoral) ministries of tested service areas
- Ministry of Regional Development and Public Works: regional impact assessment
- National Tax Office on tax procedures and capacities
- National Association of Municipalities in the Republic of Bulgaria (NAMRB)

4. Improved transparency and performance management in local budgeting

The Policy Advice Document developed by the TSI project highlighted the lack of a benchmarking and monitoring system of the actual provision of public services as one of the critical areas in the current municipal finance system in Bulgaria. It formulated proposals for introducing a system of benchmarking and monitoring the actual provision of local services. Thus, monitoring the general quantity and quality of produced services and their evolution over time will be achieved.



Reform objective and proposals

A) ENHANCE TRANSPARENCY THROUGH BENCHMARKING

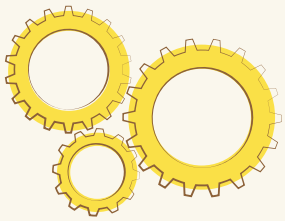
Establishing a benchmarking and monitoring system for local services lies in the core of this objective. Thus, the actual performance of each municipality in the provision of services will be evaluated in respect of a reference point (a national average/a standard level of output - SLO). On the other hand, standard expenditure needs (SENs), as benchmarks will also be calculated under the system. The purpose of this system is not to enter into the inter-governmental financial relations, nor in the budgeting system. It would be used for benchmarking, to identify best practices and to stimulate inefficient local administrators to improve their performance. It could greatly contribute to the transparency and accountability of municipal polices and to citizens' participation and awareness. It is encouraged to cooperate with academic and research institutes in Bulgaria, such as the Analysis and Forecast Institute within the Ministry of Finance. The Institute was established in 2023 and it is viewed as a natural holder and promoter of this system.

B) SUPPORT TO THE INTRODUCTION OF BENCHMARKING AND MONITORING SYSTEM FOR LOCAL SERVICES

Introduction of the benchmarking and monitoring system for local services requires significant amount of financial and non-financial information for the major public services provided by 265 municipalities in Bulgaria. The needed data are collected by different institutions – the National Statistical Institute (NSI), the Ministry of Finance (MoF), and various line ministries (Ministry of Education and Science (MoES), Ministry of Labor and Social Policy (MoLSP), Ministry of Culture (MoC).

Some of these institutions do not publish data at all, while others publish only national level or aggregate municipal data. Data collection approaches often make the datasets incompatible. This poses methodological challenges and questions the relevance of the service performance indicators.

NAMRB periodically requests data from these central institutions. The information provided is often not sufficient or properly disaggregated for precise calculations and for justifying policy decisions. A sound database at Analysis and Forecast Institute (Ministry of Finance) and NAMRB, as a prime decentralization stakeholder, is a major prerequisite not only for the introduction of local service benchmarking and monitoring system, but for progressing of decentralization reform in general, as well.



Implementation measures and actions

A) BENCHMARKING THROUGH STANDARDIZATION OF MUNICIPAL SERVICES

▶ Developing the methodology for calculating standard expenditure needs (SENs) and standard levels of output (SLOs) in a selected municipal function (e.g. education). Selection of relevant explanatory variables (quantity of services produced, physical measures of maintenance, number of personnel, costs, etc.); specifying service performance quantity and quality indicators; proposed outcome measures.

▶ Testing the benchmarking methodology in pilot dataset by evaluating the calculated SENs and SLOs; comparing them with the actual municipal expenditures and performance levels.

▶ Formulate proposals on the implementation of the benchmarking methodology in other municipal functions.

▶ Implementation of the methodology in all municipal functions

MILESTONES	STARTING YEAR (T)	T+1	T+2	T+3
Elaborated methodology for calculating standard expenditure needs (SENs) and standard levels of output (SLOs) in a selected municipal function	X			
Tested methodology with pilot data from the database.		X		
Evaluated results and proposals on the implementation of the methodology in other municipal functions		X		
Implemented methodology in all municipal functions			X	X

B) DEVELOP A DATABASE COMBINING FINANCIAL AND NON-FINANCIAL INDICATORS

▶ Assessment of municipal data that are collected at Ministry of Finance for benchmarking municipal services

▶ Survey on the "owners/collectors" of municipal financial and non-financial data: responsible institutions, datasets collected, applied data collection methodologies, data management (presentation, access)

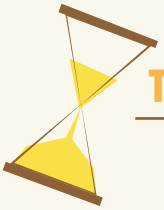
▶ Creation of database management system/software with municipal financial and non-financial data at Analysis and Forecast Institute (Ministry of Finance) and made available for NAMRB including supply of necessary equipment

▶ Creation of procedures for verification and collection of data from the municipalities.

▶ Training of municipal data officers to prepare and deliver the financial and non-financial data into the database

▶ Data collection and database maintenance.

MILESTONES	STARTING YEAR (T)	T+1	T+2
Assessment of municipal data to be collected at Analysis and Forecast Institute (Ministry of Finance) for benchmarking municipal services	X		
Survey of the "owners/collectors" of municipal financial and non-financial data.	X		
Created database at Analysis and Forecast Institute (Ministry of Finance) including data collection procedures and training of municipal officials. Database made available for NAMRB.		X	
Data collection and database maintenance, start of regular publishing			X



Timing

IMPLEMENTATION ACTIONS	TIME NEEDED
Elaboration of methodology for calculating standard expenditure needs (SENs) and standard levels of output (SLOs) in a selected municipal function	3 months
Survey on the "owners/collectors" of municipal financial and non-financial data. Assessment of the scope of the municipal database to be created at Analysis and Forecast Institute (Ministry of Finance)	3 months
Assessment of municipal data to be collected at Analysis and Forecast Institute (Ministry of Finance) for benchmarking municipal services.	3 months

IMPLEMENTATION ACTIONS	TIME NEEDED
Creation of database at Analysis and Forecast Institute (Ministry of Finance) including data collection procedures and training of municipal officials. Providing access to the database for NAMRB.	12 months
Testing the methodology with the dataset in a pilot service area. Evaluation of results and proposals on the implementation of the methodology in other municipal functions	3 months
Implementation of the methodology in other/all municipal functions	12 months
Data collection and database maintenance, regular publishing	continuous
Legislation, drafting new budgeting rules and procedures	3 months
Information sharing for all interested ministries and the municipalities	3 months



Responsible organisation

A) MINISTRY OF FINANCE (MOF);

B) MINISTRIES, GOVERNMENT AGENCIES AND PARTNERS INVOLVED:

- Ministry of Regional Development and Public Works (MRDPW)
- Ministry of Education and Science (MES)
- Ministry of Labour and Social Policy (MLSP)
- Other line ministries
- National Statistical Institute (NSI)
- National Association of Municipalities in the Republic of Bulgaria (NAMRB)

5. Advanced communication of local budgets and public participation in budgeting



Reform objective and proposals

A) ENHANCE LOCAL ACCOUNTABILITY

Citizen participation is moderately developed in Bulgaria. The level of knowledge about municipal budgets among the wider public is low. Main problems are the complicated format in which local budgets are presented and the brief window in budget calendar when draft budgets are available for consultation. High public participation in the budgeting process and awareness of local finances will increase trust in the local institutions, enhance involvement in local governance and strengthen social accountability.

Local accountability could be enhanced by reviving budget practices that are provided by law however not practiced in Bulgaria.

The program budgets - article 82 of the Public Finance Law - offer better allocation of the available resources and their efficient spending. This approach allows clear linking of the strategic goals and the way of their attainment by the local government. Presenting budget allocation by programs further enhances transparency of the budgeting process. Updated manuals and guidelines are needed for the municipalities to make the transition from line item to program budgeting and also for making this practice popular.

Service users and beneficiaries need specific information on the services provided by the municipality. It is the basis of an agreement between the municipality and its clients in a form, often called a "citizen charter". Citizens should be aware of the organisations and management forms of service provision, service performance level guaranteed by the municipality, expenditures and sources of financing, the responsible municipal administration units with contact information and complaint mechanisms.

Technology offers new and easily accessible forms of public information like open data, user friendly interfaces on the municipal internet sites, social networks, etc., which can be successfully applied to improve municipal accountability.

B) FACILITATE CITIZEN PARTICIPATION

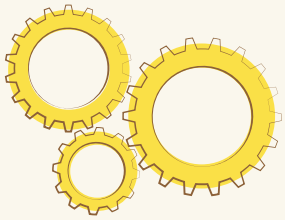
Citizen participation in budgeting process could be enhanced by introducing practices for making local budgets more understandable for every citizen. The Budgets for Citizens (BfC) is a document developed by the municipality exclusively for the public, and it presents the budget

in a simple, less technical format. Better understanding of how public finances are managed and used is vital for public accountability and increasing civic participation.

The BfC presents the budget process, the municipal goals, where revenues come from and their amount, how they are spent (capital and recurrent costs), what are the challenges, what assumptions are made. The budget for the citizens should be attention-getting, attractive, with many visual elements. The BfC is not meant to replace standard detailed budget document, but supplements the formal budget with information for citizens and civil society organisations (CSOs).

Budget for Citizen Initiatives (BCI) is a specific municipal budget appropriation allocated for financing civic initiatives. This is a practice when local citizens and CSOs can decide about the type of municipal projects and even physically participate in their execution. Financing the projects of citizen initiatives should be promoted and more widely used. This experimental technique for participatory budgeting is already applied in a number of municipalities in Bulgaria.

Information sharing and awareness-raising campaigns for citizens are also highly needed. The benefits of fiscal decentralisation together with the assessed impact on citizens' life – both benefits and costs in the form of taxes, fees - should be widely disseminated. It will help to make the available participatory mechanisms more effective, improve inclusion and ultimately will make municipal service provision more responsive to local needs.



Implementation measures and actions

A) UPDATE EXISTING INSTRUMENTS FOR DRAFTING AND UNDERSTANDING LOCAL BUDGETS

▶ Implementation of the program budgeting process in selected municipalities – drafting of the program budget, holding of general and thematic (per budget program) public consultations. Monitoring and assessment of the results from the program budget implementation through survey of the local authorities and citizens.

▶ Elaboration of Guidelines for drafting municipal program budgets. Dissemination and multiplication of the results among other municipalities interested to apply the program budgeting process.

▶ Municipal capacity building for program budgeting implementation – how to apply the Guidelines for drafting municipal program budgets, including holding public consultations

▶ Designing sample information brochures on municipal services for citizens.

▶ Support to open data techniques for accessing information on municipal services and finances

▶ Elaboration of a Guide for Budget for Citizens. Based on the current international practices it will include the timeframe of the budgeting process, policy objectives, revenues, expenditures, indebtedness, assumptions and risks.

▶ Municipal capacity building for «Budget for Citizens» implementation - including technical, digital and communication skills, standard models for the Municipal Councils

▶ CSO capacity building program for understanding local budgets and local budgeting process

MILESTONES	STARTING YEAR (T)	T+1
Elaborated Guidelines for drafting municipal program budgets	X	
Elaborated program budgets in selected municipals	X	
Multiplied elaboration of program budgets in other municipalities and capacity building		X
Developing and disseminating information sharing techniques on municipal services	X	
Elaborated and implemented CSO capacity building program for understanding local budgets and local budgeting process	X	X

B) FACILITATE CITIZENS' PARTICIPATION

▶ Conducting of survey on the implementation of the Budget for Citizen Initiatives (BCI) in Bulgaria. Planning dissemination and multiplication of the results among the stakeholders.

▶ Practical application of the BCI in pilot municipalities. Monitoring and assessment of the results and effects through citizen opinion survey.

▶ Dissemination and multiplication of the results among the stakeholders. Elaboration of a Guide and support programme for Budget for Citizen Initiatives (BCI).



Timing

IMPLEMENTATION ACTIONS	TIME NEEDED
Elaborating Guidelines for drafting municipal program budgets	6 months
Designing program budgets in selected pilot municipals	6 months
Preparing program budgets in other municipalities and capacity building	continuous
Elaborating CSO capacity building program for understanding local budgets and local budgeting process	5 months
Implementing CSO capacity building program for understanding local budgets and local budgeting process	12 months
Elaborating a Guide for Budget for Citizens	3 months

IMPLEMENTATION ACTIONS	TIME NEEDED
Drawing up budgets for citizens in selected municipalities	3 months
Drawing up budgets for citizens in other municipalities with capacity building	continuous
Conducting survey on the BCI implementation in Bulgaria	6 months
Elaborating Guide for BCI	6 months



Responsible organisation

A) MINISTRY OF FINANCE

B) MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC WORKS

C) NATIONAL ASSOCIATION OF MUNICIPALITIES IN THE REPUBLIC OF BULGARIA (NAMRB)

D) ACADEMIC AND RESEARCH INSTITUTES AND NGOS

6. Support to decentralisation reform process across all levels of government



Reform objective and proposals

A) ESTABLISH AN EFFECTIVE COORDINATION, MONITORING AND EVALUATION MECHANISM

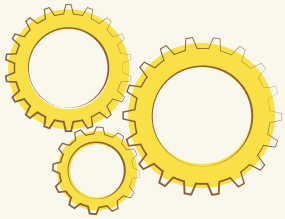
The Decentralisation Strategy and its updated version (2021-2025) clearly defines the reform goals and priorities. The document published by MRDPW specifies not only a vision on quality public service provision, but defines its implementation and monitoring methods, as well. Here the Council for Decentralization of State Governance (CDSG) plays an important role. CDSG is a focal point of government dialogue and reform process coordination. Careful analysis and evaluation of the Council's past activities proved that its organisation and management should be strengthened for better serving decentralisation and multilevel governance reforms.

Specific objectives of strengthening the Council are, as follows:

(i) The present status of CDSG is properly regulated by Council of Ministers' decree and there is no need to transform the Council to a negotiation or interest representation forum. However, it should more effectively support the strategy implementation by breaking the sectoral method of decentralisation reform and promoting whole-of-government approach. Harmonising the actions of sectoral ministry "silos" will help to achieve the strategic goals, such as gradually eliminating the separation of delegated and own functions, enhancing municipal responsibilities combined with fiscal autonomy and local accountability.

(ii) Political goals and preferences should be channelled into the CDSG operation in two ways. First, the socio-economic partners and citizens' organisations should be involved in the Council. Secondly, CDSG is reporting to the Council of Ministers but regular coordination and information sharing with the Parliament should be ensured through the relevant Parliamentary Committee.

(iii) It will support the monitoring and evaluation functions of CDSG related to the process of decentralisation. The Council's role to encourage analytical work and strategic planning across levels of government should be enhanced. National level a coordination, monitoring and evaluation mechanism for decentralisation and multilevel governance should be established.



Implementation measures and actions

A) MEASURES FOR ESTABLISHING COORDINATION, MONITORING AND EVALUATION MECHANISM

▶ regulation on the coordination powers of CDSG needs improvements. It is proposed that the Council for Decentralisation of State Governance remains under the control of the Council of Ministers, which adopts its reporting procedure. As a consultative and advisory body to the Council of Ministers its coordination, monitoring and evaluation mechanism and capacities should be strengthened.

▶ political influence of CDSG is supported by formalising its relationship and coordination procedures with the Parliamentary Committee on Regional Policy, Public Works and Local Self-government, and other relevant committees (e.g. Committee on Budget and Finance). Most of the decentralisation reform strategic goals are related to regional development and finances, so this high-level political coordination is needed. Joint sessions and information sharing will help the Parliament to directly contribute to the decentralisation reform.

▶ Organisational, analytical and strategic planning capacity of CDSG has to be improved. Sectoral ministry and expert level coordination, monitoring and evaluation mechanism for decentralisation and multilevel governance should be established.

▶ Within the operational framework set by the present Council of Ministers Decree, the CDSG is proposed to be supported by establishing working groups. They contribute to the coordination, monitoring and evaluation of decentralisation policies. The working groups could be related to the four goals of the present decentralisation strategy. The working groups also contribute to decentralisation related specific issues, including budget and database development.

▶ The Council develops the strategic roadmap for decentralisation and multilevel governance, together with a reporting procedure on its implementation, to be adopted by the Council of Ministers.

▶ Regular (bi-annual) evaluation of the decentralisation strategy implementation should be continued through periodic reports on the state of decentralisation and multilevel governance. These periodic reports will be the bases of recommendations for improvements and updates of the strategic roadmap.

MILESTONES	STARTING YEAR (T)	T+1	T+2	T+3
New CoM Decree on the CDSG	X			
Improved rules and procedures of the Council		X		
Adoption of strategic roadmap for decentralisation and multilevel governance		X		
Bi-annual reports on the state of decentralisation and multilevel governance				X



Timing

IMPLEMENTATION ACTIONS	TIME NEEDED
a) New regulation on the CDSG	6 months
b) Setting up improved coordination and management mechanisms	6 months
c) Adoption of strategic roadmap for decentralisation and multilevel governance	8 months
d) Bi-annual reports on decentralisation and multilevel governance	4 months



Responsible organisation

A) COUNCIL OF MINISTERS

B) MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC WORKS

C) MEMBERS OF THE COUNCIL FOR DECENTRALISATION OF STATE GOVERNANCE

D) MINISTRY OF FINANCE

Annex - Summary tables on roadmap to support the decentralisation reform process per priority area

1. Modification of municipal competencies and promoting inter-municipal cooperation

Reform objective and proposals:
a) Review municipal functions, redefine attributions

- Re-design the boundaries of delegated and own municipal functions
- Abolishing the "split budget" model

IMPLEMENTATION MEASURES AND ACTIONS	TIMING (MONTHS)	RESPONSIBLE ORGANISATION
(i) assessment of legal, administrative, regulatory and financing mechanisms	6	Council of Ministers appointed entity
(ii) setting the principles and goals of new municipal financing methods and grant allocation techniques	6	MoF

Reform objective and proposals:
b) Reallocation of competencies and powers by service components

- Identifying the components of public service allocation
- Assessing the central-local powers along the main allocation criteria of public service provision

IMPLEMENTATION MEASURES AND ACTIONS	TIMING (MONTHS)	RESPONSIBLE ORGANISATION
Re-design allocation of public functions to municipalities by using agreed criteria	12	Council of Ministers appointed entity

Reform objective and proposals:
c) Enhance inter-municipal cooperation

- incentives for promoting cooperation in diverse municipal service provision
- support mechanisms of IMC

IMPLEMENTATION MEASURES AND ACTIONS	TIMING (MONTHS)	RESPONSIBLE ORGANISATION
(i) designing grant allocation and financing mechanisms which support inter-municipal cooperation	6	MoF
(ii) technical assistance and support to development of inter-municipal cooperation schemes in all service areas	18	MRDPW

2. Enhanced local tax base

Reform objective and proposals:
a) Real estate tax reform

- adjusting base value
- incorporating correction coefficient on access to public transportation
- allow differentiated tax rates
- designing a municipal agricultural land tax
- support local tax administration
- harmonise with income policy

IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
(i) definition of the adjusted base value in tax assessment formula	3	MoF, key partners: MRDPW, NAMRB
(ii) review of correction coefficients, setting the public transportation-based correction coefficient (Ct)	3	MoF, key partners: MRDPW, NAMRB
(iii) assessing the impact of tax rate differentiation	3	MoF, key partners: National Tax Office, NAMRB
(iv) modelling agricultural land tax	6	MoF, key partners: National Tax Office, NAMRB, MRDPW, GCCA, NSI

Reform objective and proposals:
b) Local business value tax

- transform patent tax to tax on net turnover for larger businesses
- range of local tax rates set nationally
- information provided for local tax administration
- harmonising with economic policy

IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
(i) defining net turnover, as local business tax base	3	MoF, key partners: NAMRB, BEC, BICA
(ii) assessing LBT impact on municipal budget	3	MoF key partners: MRDPW, NAMRB
(iii) planning tax administration procedures, costs	3	MoF, key partners: National Tax Office, NAMRB
(iv) drafting amendment to local tax law	6	MoF, key partners: NAMRB, BEC, BICA, National Assembly

3. Developing task-based intergovernmental transfers

Reform objective and proposals:
a) Introduce alternative form of financing through personal income tax sharing

- allocating significant, predictable and stable revenue source to municipalities
- ensuring balanced national budget by moving funds from grants to shared taxes
- creating incentives for efficient use of local economic resources for municipal finances
- establishing transparent and simple financing mechanisms

IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
Setting up design capacities and planning alternative PIT sharing methods	9	MoF, partner: MRDPW, NAMRB
Evaluating the main tax sharing options and assessing their local impact	3	MoF
Designing tax administration for PIT sharing	3	MoF, partner: National Tax Office
Legislation and information sharing	3	MoF, partner: NAMRB, MRDPW, National Assembly

Reform objective and proposals:
a) Introduce new grant allocation methods

- Limiting distinction between delegated and own functions
- Improve efficiency and fairness in grant allocation
- Making transfer system more predictable and stable by using objective indicators

IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
Setting up grant design capacities and planning models	6	MoF, partner: line ministries, NAMRB
Testing of the SEN model options through iteration	6	MoF
Incorporating the methodology in the regular budget planning procedures.	3	MoF, partners: NAMRB, MRDPW, National Assembly
Benchmarking the Standard Levels of Output for local functions	3	MRDPW, partners: line ministries

4. Improved transparency and performance management in local budgeting

Reform objective and proposals: a) Enhance transparency through benchmarking		
IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
Developing the methodology for calculating standard expenditure needs (SENs) and standard levels of output (SLOs) in a selected municipal function	3	MoF, partners: NAMRB, MRDPW, line ministries
Testing the benchmarking methodology with a pilot dataset. Evaluation of results and proposals on the implementation of the methodology in other municipal functions	3	MoF, partners: NAMRB, MRDPW, line ministries
Implementation of the methodology in other/ all municipal functions	12	MoF, partners: NAMRB, MRDPW, line ministries

Reform objective and proposals: b) Support to the introduction of benchmarking and monitoring system for local services		
IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
Survey on the "owners/collectors" of municipal financial and non-financial data. Assessment of the scope of the municipal database to be created at NAMRB	3	MoF, partners: NAMRB, MRDPW, line ministries
Assessment of municipal data to be collected at NAMRB for benchmarking municipal services	3	MoF
Creation of database at NAMRB including data collection procedures and training of municipal officials	12	MoF
Data collection and database maintenance	continuous	MoF

5. Advanced communication of local budgets and public participation in budgeting

Reform objective and proposals: a) Enhance local accountability		
IMPLEMENTATION MEASURES AND ACTIONS	TIMING (MONTHS)	RESPONSIBLE ORGANISATION
Elaborating Guidelines for drafting municipal program budgets	6	MoF[1]
Drawing up program budgets in selected municipals	6	MoF
Preparing program budgets in other municipalities and capacity building	continuous	NAMRB, MRDPW
Design information brochures on municipal services for citizens	3	NAMRB, MRDPW
Support to open data instruments on municipal finances and services	6	NAMRB, MRDPW, MoF
Enhancing CSO capacity building program for understanding local budgets and local budgeting process	6 months	MoF, academic and research institutes, NGOs
Implementing CSO capacity building program for understanding local budgets and local budgeting process	12 months	MoF, academic and research institutes, NGOs

Reform objective and proposals: b) Facilitate citizens' participation		
IMPLEMENTATION MEASURES AND ACTIONS	TIMING(MONTHS)	RESPONSIBLE ORGANISATION
Elaborating a Guide for Budget for Citizens	3	NAMRB, MoF
Drawing up budgets for citizens in selected municipalities	3	MoF, academic and research institutes, NGOs
Drawing up budgets for citizens in other municipalities and capacity building	continuous	NAMRB, MRDPW
Conducting of survey on the implementation of the Budget for Citizen Initiatives (BCI) in Bulgaria. Dissemination and multiplication of the results among the stakeholders	6 months	MoF
Elaboration of a Guide for Budget for Citizen Initiatives (BCI)	6 months	MoF

[1] Implementation and several tasks in this area might be assigned to Analysis and Forecast Institute (MoF)

6. Support the decentralisation reform process across all levels of government

Reform objective and proposals:
Support to decentralisation reform process through effective coordination, monitoring and evaluation mechanism

▸ New regulation establishing at national level coordination, monitoring and evaluation mechanism for decentralisation and multilevel governance by Council of Ministers' decree
▸ All levels of government, socio-economic partners and citizens' organisations are involved
▸ Coordination procedures with the Parliamentary Committee on Regional Policy, Public Works and Local Self-government, and other relevant committees (e.g. Committee on Budget and Finance), are envisaged
▸ Establishing working groups under the coordination, monitoring and evaluation mechanism, to contribute to specific issues, including budget issues and database development
▸ Developing a strategic document - strategic roadmap for decentralisation and multilevel governance, and reporting procedure on its implementation, to be adopted by the Council of Ministers (CoM)
▸ Preparation of reports (bi-annual) on decentralisation and multilevel governance, endorsed by the Council for Decentralisation of State Governance (CDSG), and approved by CoM

IMPLEMENTATION MEASURES AND ACTIONS	TIMING (MONTHS)	RESPONSIBLE ORGANISATION
New regulation on national coordination, monitoring and evaluation mechanism for decentralisation and multilevel governance	6	MRDPW
Establishing working groups and ToR	6	MRDPW, NAMRB as national coordinators
Drafting and adoption of strategic roadmap for decentralisation and multilevel governance	8	CDSG
Bi-annual reports on decentralisation and multilevel governance	4	CDSG
Elaboration of a Guide for Budget for Citizen Initiatives (BCI)	6 months	MoF

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