

ASSESSMENT OF MUNICIPAL AND DISTRICT CAPACITIES FOR PARTICIPATION IN EU STRUCTURAL AND COHESION FUNDS ABSORPTION





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SUMMARY

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Sofia, July 2006

This report was prepared as a follow-up paper to the survey and assessment of municipal and district capacities for absorption of the Structural and Cohesion Funds of the European Union done in 2004 jointly by UNDP and the Ministry of Regional Development and Public Works. This updated *Assessment of Municipal and District Capacity to Participate in the Absorption of Resources from the Structural and Cohesion Funds of the EU* was prepared based on interviews with Bulgarian municipalities and district administrations which took place in April and May of 2006 and based on the aggregate data of the questionnaire compiled specially for this report.

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The report was launched during a round table discussion organized by the UNDP Country Office on 25 July 2006 in Sofia.

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FOREWORD

This is the third of a series of reports commissioned by UNDP and prepared with the participation of national and international experts and partner organizations to assess - on the eve of Bulgaria's accession to the European Union - the national capacities for the use of the EU Structural and Cohesion Funds (SCFs).

Two years ago, in 2004, UNDP together with the Ministry of Regional Development and Public Works and with the participation of the National Association of Municipalities in the Republic of Bulgaria released the first ever national assessment of municipal and district capacities to absorb the EU funds. We were guided by the understanding that accession to the European Union could be a major “shock” for the country's economy, institutions and people, but that it could also be a major opportunity to change the face of Bulgaria and bring its level of human development closer to that of the EU member countries. The Structural and Cohesion Funds can be transformative – they can help more people have more choices – in income, in education, in health, in participating, in giving their children more chances for a better life. They are something that can make human development grow. Experience elsewhere had shown that for the SCFs to be transformative central government capacity was a necessary but not a sufficient condition. There had to be local capacity. UNDP's intention was to assist its partners at national and local level to prepare the conditions for a quantitatively but also qualitatively successful absorption of the financial support provided by the EU. A national survey conducted in 24 districts and 209 municipalities in 2004 found that capacities were weak, and conditions were not in place to build capacities. This first assessment warned that SCFs could end up contributing to a cycle of increasingly less cohesion, and more inequality. Unless actions were taken urgently, the lack of capacity would mean SCFs would not be transformative. They would not contribute to human development in Bulgaria.

Two years later, in July 2006, jointly with the same partners, UNDP released the updated survey and assessment of the capacities of municipal and district administrations to plan and use EU Structural and Cohesion Funds. We used a similar, but improved methodology to see whether there is now adequate capacity to work with EU funds. All 28 districts and 243 Bulgarian municipalities were screened by answering a special questionnaire. The results? We found that there is progress in capacity building, but this progress is uneven – a big quantity of training and planning did not necessarily always result in corresponding increases in quality of knowledge. We found that the more district administrations and local governments know, the more they realize they need to know more. We found that there are good experiences, but there are also still big questions among municipalities and districts on how to build capacity. Small municipalities are still caught in “a vicious circle”, and although the overall environment in terms of national policies and support is more fertile, it is not yet enough to fill the capacity gap. The updated report says that the remaining capacity gaps can indeed be filled – though to do this will need immediate special efforts by

many partners. If such efforts are successfully made, and Bulgaria starts to access and use well the SCFs, then it would be advisable to subsequently develop and introduce policies that amplify and sustain the benefits the SCFs could bring, such as fiscal decentralization, and new planning and financing arrangements.

With publishing of the three reports on national capacities to use EU funds completed, UNDP Bulgaria intends to build on these, and continue its programme and project support to all stakeholders at national and local levels, so that they are better prepared for the imminent membership of Bulgaria to the European Union. The National Human Development Report 2006, based on the three capacity assessments, will highlight the need for policies that build more capacities and strengthen institutions so as to ensure the effective translation of the Structural and Cohesion Funds (SCFs) into “development impacts” for Bulgarians.

Neil Buhne
UNDP Resident Representative

1. CONCLUSION

1.1. Summary

The Republic of Bulgaria is on the eve of its EU membership. The results of this survey give ground to feel informed optimism. The survey showed that in the past two years considerable effort has been invested in getting ready for structural funds' use, there has been serious preparation and significant progress has been noted. This is thanks to both government action and municipalities and district administrations themselves, but also thanks to international donor support and influential non-governmental organizations. An important role in this played also regular criticism and recommendations from the European Commission and, particularly, considerable pre-accession financial support from the EU.

Parallel to the progress identified, this survey revealed that there still exist some obstacles to efficient use of resources from the structural funds by municipalities and district administrations. They are to do with the structure and quality of information and training, co-financing opportunities and project design funding, experience in project development and implementation, partnerships development, administration's size and structure. Those barriers stand out the most and are most difficult to overcome in smaller municipalities. Most disadvantaged are municipalities under 10,000 people, or 38% of all municipalities. Lagging behind in terms of many capacity criteria are also municipalities in the range 10,000-50,000 people, or half of all Bulgarian municipalities. No matter that improvement with smaller municipalities in the past several years is highest, it is not sufficient to overcome existing barriers in capacity.

Identifying the barriers, this survey proposes also measures that need to be taken in the last remaining months before accession and during the first year after it. The most important and urgent among them are the following:

1. The final design of operational programmes should take into account beneficiaries' capacities
2. A simple mechanism, easily accessible for municipalities should be established to ensure co-financing. This should be based on past experience, familiar principles and effective schemes.
3. There should start quick action for project preparation, inclusive of feasibility studies.
4. There should start training programmes of a new type, building practical skills in accordance with beneficiaries' specific needs
5. There should be timely dissemination of accurate, understandable, and needs-based information to municipal and district administrations on the structural funds and the operational programmes they co-finance.

There is no municipality or district administration fully prepared. At the same time there is no municipality or district administration absolutely unprepared. Parallel to this, there is no clear standard or description of what it means for an administration to be prepared for the structural funds or an official to be trained. A fairly urgent task is to develop a tool through which administrations and their staff are able on their own to identify their strengths and weaknesses, respectively their degree of preparedness.

Urgent measures in capacity building for structural funds absorption cannot and should not be used as an alibi not to deliver on the long-term decentralization intentions. At the same time, this process should not be confused with and should pose no threats for implementation of the operational programmes. In the context of the structural funds decentralization should be seen as a long-term solution. The short-term solution that at least partially makes up for the gaps of there not being enough decentralization is the promotion of partnerships, especially between municipalities.

1.2. General situation and positive trends

Municipalities in the Republic of Bulgaria vary in their knowledge and experience with respect to the structural funds, and also in their structures and resources. They do not lend themselves easily to a unified description; they experience different problems and need diversified recommendations. At the same time the survey also identified common features, the more important of them the following:

1.2.1. Leading importance of municipalities among local development actors

Comparison between the various development actors – municipalities, district administrations, NGOs and businesses – shows that municipalities, and especially the larger ones among them, possess the largest experience and capacity for project development and implementation. This makes them a leading factor in regional and local development both because they are the only autonomous public actor on the sub-national level and because they are relatively stronger than the other actors in terms of mobilization and use of resources through grant funding projects. Consequently, there is a need for more careful and concrete interpretation of the role of the NGO sector, the district administration and the other actors, also with a view to strengthening municipalities' capacities.

1.2.2. Increase in capacity, increase in self-criticism and realism

Contrary to their increased capacity, which is identifiable through fairly objective criteria, Bulgarian municipalities say they are less prepared for the structural funds compared to 2004. Albeit not that substantial, there is a drop in own assessments on preparedness also among the district administrations. The survey cannot offer an unequivocal interpretation for this drop in self-assessments. One could suppose that this is a sign speaking of a more critical attitude to central government or a drop in self-confidence owing to stronger mes-

sages from the European Commission and the Bulgarian government that the country is not well prepared for its membership. It is more likely, however, that we are witnessing growing realism as a result of measures in the preparation of municipal administrations, and their being more informed and more experienced.

1.2.3. Improved, yet incomplete information on structural funds

In contrast to the feeling of unpreparedness, municipalities and districts are better informed about the structural and cohesion funds compared to 2004 and to a greater measure grasp their goals and requirements. In parallel to this, one large portion of municipalities state that they have received enough general and leaflet-type information, while only 23% of municipalities have enough knowledge on project funding opportunities. Knowledge is least sufficient with respect to the regulations and concrete rules of the structural funds, as well as with respect to the way they operate and how they will be running their operations in Bulgaria. Highest marks are awarded for the up-to-date quality of information, lower marks for its quality and exhaustiveness and what turns to be most problematic is the understandability of information.

1.2.4. Practical knowledge of the programmes active in the pre-accession period

In contrast to their information on the future action and use of the structural funds, municipalities know well current funding opportunities for municipal projects so as to be able to use them in practice – the programmes PHARE, SAPARD, ISPA, other EU programmes, national and external sources of grant financing. This means that practical knowledge comes only after the operation of the real programmes has started. At the same time the mismatch between levels of awareness of the structural funds and levels of awareness of current project funding opportunities suggests that municipalities probably are already aware that familiarity with the pre-accession instruments does not mean automatic familiarity with the structural funds.

1.2.5. Change in information channels

Compared to 2004, there are considerable changes in the information channels for the structural funds. Finding information through direct contact and correspondence with central government officials, with its regional structures, with district administrations has decreased several-fold. There has been a decrease also in obtaining information through printed material distributed officially. At the same time finding information through electronic and printed media has remained almost unchanged. Acquiring information through the Internet and seminar-type training has grown and dominates the scene. This change concerns also district administrations, the only difference being that they almost unanimously attach greatest significance to seminars when it comes to obtaining information.

1.2.6. Varying levels of specialization

Specialization in activities linked to the pre-accession instruments and the structural funds is an important diagnostic feature of the degree of preparedness of administration. In

this respect comparison with 2004 reveals stronger dynamics among the districts, who have met the respective logistical prerequisites, while among the municipalities there have been insignificant changes. It is a good thing that the number of municipalities that have neither a unit, nor an official dealing with issues in the field of pre-accession instruments and the structural funds has decreased. There are no changes in the share of municipalities possessing units specialized in this field, and only a slight increase in the number of municipalities possessing a specialized official. The share of municipalities where one staff combines work on the structural funds with other responsibilities remains at 30%, something which is a bigger issue for municipalities with populations below 20,000.

1.2.7. Slight improvement in human resources

Compared to 2004 there is some improvement in human resources. There has been a slight increase in the share of staff who received training on the structural funds and this comes up to 5 persons per municipality, or 6% of all staff. For the smallest municipalities, however, the number of staff trained only rarely amounts to more than two to three persons as for them it is often difficult to send people to trainings without their other activities and obligations suffering. Linked to this is also another problem some municipalities face – project work in those municipalities is concentrated in a limited number of people. The national average of staff specialized in project preparation and implementation is around 7 persons per municipality, but in over one-third of municipalities there are only one or two experts in project operations. The small share of experts with higher education and even smaller share of experts speaking English is also a problem. In terms of human resources districts are in a much better situation organizationally and qualifications-wise.

1.2.8. Increased awareness of the importance of staff motivation

A new theme which was not present in the 2004 surveys is staff **motivation**. Municipal and district administrations realize that staff dealing with issues of the pre-accession instruments and the structural funds, with project design, strategic planning, etc. come against higher requirements also in terms of the intensity of their work, and their efforts are not rewarded accordingly.

1.2.9. Higher readiness to co-finance and invest in project development

Various data confirms the thesis that co-financing ability is a matter not only of objective factors and available resources, but also of attitude and ability to organize and plan resources. It is good that compared to 2004 more municipalities are now convinced that in order to be successful in the structural funds they need to invest more own resources. For the time being, however, the better part of them are able to allot to this goal only modest amounts. The share of municipalities claiming that they are capable of making available resources in co-financing has grown almost 3 times and has reached 80%, and the share of those unable to provide such resources has decreased over 5 times to 12%. It is good that this change is most marked among small municipalities. Although not that clear, there is improvement also in municipalities' capacity to allocate funds for designing projects under

the structural funds. In 2006 this was stated by almost 60% of municipalities. When taken as a whole, data seems to suggest that ‘size *does* matter’: the absolute amount of municipal revenue has greater impact on co-financing capabilities than their relative wealth (revenue per inhabitant) or the source of revenue (share of own resources). With district administrations there are no changes in the situation – they are unable neither to co-finance projects, nor to fund their design.

1.2.10. Improvement in technical resources

There have been serious positive changes in terms of municipal technical resources and to such a degree that they catch up with district administrations in terms of level of technical resources. Today fast and quality Internet connection is unavailable only to 5% of municipalities and for over 60% of them this type of Internet connection is available for each work station.

1.2.11. Planning culture emerges

Survey results paint a positive picture of planning capacity in municipalities and districts, albeit accompanied by contradictory trends, some persistent gaps and the emergence of new problems. Municipalities and districts demonstrate positive and motivated attitude to their own participation and role in development planning processes and to the development of their ability to make a suitable contribution in this process. To a large extent the problem of passivity of local and regional actors mentioned in previous surveys and linked to the expectation that their problems will be resolved by the central government, with resources from the central government, with actions implemented by central government has been overcome.

The better part of districts and municipalities have arranged for an inclusive planning process to take place; participation of various stakeholder groups reveals considerable positive changes compared to the 2004 survey results. Particularly sizeable is the increase in the participation of local non-governmental organizations and local businesses (by 21 points in terms of municipal planning and 31 points in terms of district planning). One may expect that broader participation has led to more needs-based, acceptable and doable plans, to broader ownership in plans and support for their implementation. Participatory planning is becoming the norm.

Compared to 2004, both municipal and district planning display increased awareness of the importance and the problems in interaction with other actors. At the same time there is a considerable decrease in reliance on ‘guidelines from central government’ and the problem of the ‘tight deadlines’. The certain weakening of emphasis on financial resources as a difficulty in planning indicates a strengthening of realism (planning within the scope of what is achievable and not what is desired).

There is improvement also with one of the main problems identified in the 2004 survey –

the dominance of vertical links, the scarcity of horizontal links and a view on municipal planning as a closed process in which municipalities focus their attention exclusively on their own municipality and thus miss opportunities together to find solutions and resources for common problems. There is a sharp increase in the share of municipalities that deem it important to improve interaction with other municipalities. At the same time the weight of recommendations for improvement of interaction with central government is going down. In terms of district planning, there is a marked increase in the weight of recommendations concerning the more decentralized decision-making.

Although this situation cannot be viewed as satisfactory, it is an indication that there is a 'planning culture' developing, which may be expected to yield results at a later point in time, provided the process is sustained and deepened. No matter that the local and regional level planning process for 2007-2013 is over and the structural funds' programmes are close to their finalization, the planning capacity, the respective knowledge, skill, the structures and processes established, continue to be a topical issue in structural funds' absorption – because planning processes or processes similar to them will be taking place also in the course of the implementation of the operational programmes. At the same time, suitably arranged planning processes and structures, such as the district and regional development councils, planning groups in municipalities and public forums may be used to coordinate interests, identify and develop projects, especially partnerships project, inclusive of joint projects of several or all municipalities in a district.

1.2.12. Increased capacity for project design and implementation

The overall picture of project development and implementation capacity of districts and municipalities shows considerable improvement. Municipalities, on the whole, demonstrate considerable project experience and fast growing experience with pre-accession instruments, inclusive of a twofold decrease in the number of municipalities without any experience with those instruments. The average of approved project proposals goes up more than twofold.

There is not only quantity increase in project experience but also quality improvement in project development. A greater number of project ideas are developed into overall project proposals and the better part of them succeed in turning into approved project proposals. On this there is also some bridging of the gaps between municipalities.

These positive trends can be accounted for not only by the efforts to improve municipal administrations skills, but also by the considerable expansion in 'supply' of projects for municipalities under the pre-accession programmes after 2004, especially under PHARE and SAPARD as well as facilitated access for municipalities to their resources.

1.2.13. More profound experience in partnership

There is a positive change with respect to attitudes towards partnership. Those municipalities and districts that state that interaction is not needed or that there is no interaction with the other key partners in the use of the structural funds are already very few. Muni-

palties see as most important cooperation with other municipalities but place close to it interaction with central administration, local businesses and district administrations. At a greater distance stand partnerships with local NGOs, the deconcentrated structures of the central administration and the regional and national NGOs. District administrations give priority to interaction with the municipalities from the district and push farther in the background relations with local NGOs, local businesses and the central administration and to an extent neglect interaction with the deconcentrated structures of the central administration, with the other district administrations and with regional and national NGOs.

Experience in project partnership shows considerable improvement. Practically, there are no municipalities who do not consult their projects with some groups of stakeholders. With district administrations only 10% do not report such experience. Close to 90% of municipalities have experience with project partnerships within the framework of the municipality (NGOs, businesses), and two-thirds with project partnerships with neighbouring municipalities.

Partnership in planning municipalities place lower on the scale compared to project partnership. Cooperation with districts receives the highest share of good marks from municipalities, there hardly being answers that such cooperation is absent. Far too often, however, there is no interaction in planning with local, regional and national NGOs, as well as with local business.

1.2.14. Progress in meeting training needs

There emerge a range of positive trends in meeting training needs. The total number of persons trained in the past 3 years in fields to do with the structural funds went up by close to 30% compared to the previous period, and moreover particularly quickly in small municipalities. The better part of municipalities have staff trained in the past 3 years in project design and use of pre-accession instruments. There is a sharp increase in the share of those who have staff trained in strategic planning. Growing shares of trained people in all fields has led to considerable increases in the comprehensiveness of readiness of municipalities. Similar, albeit somewhat less favourable, are results for district administrations.

1.2.15. Higher readiness to cover training costs

Compared to 2004, twice as many municipalities and districts agree to cover at least part of training costs, and this is an indication of better awareness of the need to 'invest' in one's own capacity. The absence of considerable differences in the agreement to pay for training in term of size of municipality or financial capacity shows that this is not only and not that much a matter of resources but of attitudes. Still, the majority of municipalities and districts agree to allocate considerably small amounts, in the case of municipalities the predominant group being the one agreeing to pay BGN 100 per official.

1.2.16. High marks for regional associations of municipalities

Numerous associations have been set up in the course of time so in 2006 over two-thirds of municipalities may rely in case of need on a regional inter-municipal association. The majority of municipalities see their membership in regional associations as useful, also vis-à-vis use of structural funds. Municipalities rely on such bodies most of all for capacity building of their members, initiation of joint projects, the attainment and expression of a joint stand and lobbying for arriving at desired solutions. To a lesser degree they see such organizations as important factors in the preparation of project proposals for individual municipalities.

1.2.17. Differentiation of capacity characteristics and capacity development needs

Although capacity development needs are similar, their quantitative expression and ranking is different. There is a clear difference between district and municipal administrations and in terms of municipal administrations fairly clear types of differing needs emerge under two criteria: municipality size (small municipalities of under 10,000, municipalities of 10,000 to 50,000 and municipalities of over 100,000) and self-assessment of preparedness to participate in the use of structural funds. Better prepared municipalities perceive as more important needs the financial resources, practical project experience and information, while municipalities which are less prepared focus more on the quantity and training of human resources. Very important is that what may seem insignificant in the overall picture may be of great importance for a particular group (for instance the need to improve technical resources for municipal administrations without or only limited access to the Internet).

1.3. *Most important problems*

In parallel to this positive picture, a range of limitations in capacity of municipal and district administrations stand out.

1.3.1. Information fails to embrace all aspects

Despite the increased overall level of information compared to 2004, there is a risk to meaningful participation of municipalities and districts in the use of structural funds arising from the wrong structure of information. Those interviewed are unsure of the whole information circle of practical project issues – everything outside the scope of general information describing the context but not the types of behaviour in it. They know that there will be opportunities for them but they do not know how exactly the structural funds will operate here, when and how things will happen and what their role in the process will be.

1.3.2. Overly high expectations

There is an inaccurate idea of the funding municipalities could receive from the structural funds. Overall, 60 % of municipal and 80% of district administrations believe that municipalities will be the main, or predominant, receiver of their funds. At the same time,

the regional administrations have unrealistic expectations that they will directly participate in the utilization of money from the funds by developing and implementing own projects, including projects in partnership with other organizations. These expectations could not be the result of improper training and false information only. The reason probably is deeper and boils down to the existence of some vagueness on this issue on behalf of the government itself during the preparation period, in the central planning documents and the design of the operational programs

1.3.3. Poor familiarity with operational programmes

Something which is a problem from the point of view of structural funds absorption is that municipal and district administrations up to now are more familiar with plans and strategies under the Regional Development Act than with the operational programmes that provide the true 'entry point' to the funds resources. The level of familiarity is higher with district administrations compared to municipal administrations, which will be using those resources on a much larger scale. Among small municipalities the share of those unfamiliar with the programmes is considerably higher compared to municipalities of over 50,000. There are also considerable differences in familiarity with programmes in terms of regions, which is an indicator of varying efficiency in the dissemination of information.

Relatively fewer are those unfamiliar with the Regional Development Operational Programme, a fact that can be accounted for in different ways. On the one hand this is linked to the earlier release and more regular update of published version of the programme compared to the remaining ones. On the other hand, however, this is an indication of the incorrect understanding that the Regional Development OP is the only one that provides access to the structural funds for municipalities and the only funding source for the implementation of the regional, district and municipal plans.

1.3.4. Overestimation of own weaknesses

Against the low self-assessment of the municipalities with respect to their readiness for the structural funds, even those that claim to be fairly prepared for the utilization experience some significant troubles. About 1/3 of those that believe they are ready are poorly informed about the structural funds, almost 1/3 have no experience with pre-accession instruments and 8% have no project experience at all, 1/3 can co-finance projects with amounts up to BGN 50,000 per year, 1/4 cannot finance project development, in 1/5 of the cases the responsibility for the funds is assumed by an employee who is in charge of other tasks as well, 13% have only one employee who has a command of English, 1/5 have less than 40% higher education specialists, 1/5 do not have employees specifically trained in the field of structural funds, and in 1/5 of the cases only one or two employees have been trained in the last years.

1.3.5.

In a way, there is overestimation of readiness, underestimation of own weaknesses de-

spite limited capacity and experience and an inclination to account for failures through external problems and reasons. Lacking correspondence between own assessment of readiness to use the structural funds and the actual capacity to develop and implement projects indicates that readiness has been overestimated or that its nature has not been understood.

1.3.6. Unspecified role and unused capacity of district administrations

In many respects, notably human resources and structures, district administrations have characteristics more favourable than the average municipality and comparable to those of the largest municipalities. Their role in the utilization of the EU funds, however, remains unclear and this is reflected in their attitude -- although they cannot finance neither the projects, nor their development, they consider their participation with own projects as important. Simultaneously, to a lower extent they realize one of their most natural roles (and one that does not require broad powers and resources) – that of a district accelerator, facilitator, intermediary and assistant to other actors in the community for development of the utilization of the structural funds, particularly for the identification of above-municipal interests and development of project of above-municipal significance. Although they have considerable capacity in a range of areas, this capacity does not seem to be used enough.

1.3.7. Small and weak municipal administrations

The human resources in the municipal and district administrations cause concerns, especially with a view to their differentiation. Municipal administrations are small compared to the broad and divers tasks they handle. Generally, the human resources in the districts are well ahead of those in the municipalities: number of employees in the administration, share of specialists with higher education, English speaking staff, specialists in project work, working units under structural funds, etc.

1.3.8. Deficiency of means for projects co-financing

Despite improved understanding of the need to provide co-financing, financial deficits should not be underestimated. Co-financing abilities and capacity to invest in the development of a project impact strongly project success. Data shows that the critical threshold for considerable success in projects is the ability to allocate over BGN 100,000 p.a., which is seen as feasible only by 18% of municipalities. At the same time financial resources deficits or high requirements are seen as the main difficulty in the development and implementation of projects (52% of municipalities) and improvement in financial capacity as a priority need on capacity building (51% of municipalities).

The financial capacity of municipalities is limited by the objective parameters of their financial resources, which are relatively limited. A municipality receives an average revenue of just under BGN 10 million per year, of which under BGN 2 million in own revenue, which does not presuppose serious capacity of the municipalities to co-finance medium and large projects. The situation becomes more unfavorable if:

- Sofia Municipality is excluded when the averages are calculated, and

- Only own revenue is looked at, or to be more precise the “freely allocatable” resources, as one considerable part of municipal spending is statutorily regulated.

The last two years did not see significant increases in financial resources of municipalities, except for their expanded access to the resources of the pre-accession instruments combined with their increased capacity to attract external resources.

Despite the overall improvement in the capacity to cofinance projects, large inequalities between municipalities persist, not so much on the issue of whether they can cofinance works as on the issue how much they can contribute. The most frequently stated amounts are up to BGN 100,000 per year, in some cases up to BGN 500,000. The replies of the small municipalities and the municipalities with a population of 10,000 to 20,000 are between BGN 10,000 and BGN 500,000. The smallest municipalities experience the greatest difficulties in providing money for co-financing. They either cannot set aside such money, which is the case for 26% of them, or most often they can allocate up to BGN 50,000 for that purpose.

At the same time although there is clear recognition of the need to counter finance, the scale of this need is not comprehended fully yet and neither is the need to mobilize own resources to attract money from the structural funds.

1.3.9. Readiness to finance project design is lagging behind readiness to co-finance

There is the paradox that municipalities are more prone to allocate funds for project co-financing (80%), rather than for the preparation of these projects (53%). This issue is extremely evident in municipalities, which believe that they could set aside relatively low amounts for counter-financing. Among those that cannot allocate funds for project preparation are 2/3 of the municipalities, which are able to cofinance with up to BGN 10,000, just under one half of the municipalities, which can cofinance with BGN 10,000-50,000, and 1/5 of the municipalities, which can cofinance with BGN 50,000-100,000 or BGN 100,000-500,000. For municipalities who believe they can co-finance projects by over BGN 500,000 funding their design is not a problem.

1.3.10. Transition from pre-accession instruments and national schemes to structural funds will not be problem free

Survey data unambiguously shows that municipal experience in project design and implementation has grown considerably. This experience from the pre-accession period may be useful after accession, too. At the same time they confirm the thesis that capacity development for project design and implementation requires most of all “learning by doing”.

This is both the solution and the problem because municipal project experience, and district project experience even more, is dominated by funding sources outside of the pre-accession instruments access to which is considerably easier. The fairly small share pre-

accession instruments have in the projects approved and implemented in the past five years means that the transition from working with national and donor funding to the regime of the structural funds will not be problem free.

Furthermore, part of the registered project experience was gained through projects of the type of “demonstration” projects in 2004-2005 which in terms of size, type of activity, complexity and requirements to preparation and implementation cannot be compared at all to projects from the pre-accession instruments or the structural funds.

1.3.11. Project experience concentrated in a limited number of actors

Project experience is still concentrated in a limited number of actors. $\frac{3}{4}$ of the projects under the pre-accession instruments of the municipalities are implemented in $\frac{1}{4}$ of the municipalities, and $\frac{2}{3}$ of the district administrations do not have any experience with any pre-accession instruments. Municipalities and districts having larger experience achieve a considerably higher level of success of their proposals, thank to which these are able to develop their own capacity. The smallest municipalities seem to be the most disadvantaged in this process, and 13% of them do not have any experience with projects at all and half of them do not have any experience with the pre-accession instruments. Besides, experience of small, and also medium municipalities, is to a large extent (ca. 50%) regulated by the national sources of financing. Although modified as compared to 2004, the important differences persist – there is approximation between the medium and the big municipalities, and the difference between the small and the big municipalities is preserved while the one between the small and the medium is maintained. **Although reduced, the risk of Catch 22-case in respect to low capacity**, underlined in the 2004 research and in many analyses that followed, **cannot be considered eliminated**.

1.3.12. Shared difficulties of work under projects

The most important difficulties faced by the municipalities and districts during development, applying for and implementation of projects, are related to the financial resources and requirements thereto, ‘rules’ arising from design of financing programs and their operation – complex bureaucratic requirements, short deadlines, language of documentation, etc. - and transparency and objectiveness of the assessment process. These difficulties are common not only for the municipalities and districts but also for the other actors in the development (NGOs, business) and are assumed as objective in their nature and external to the respondents.

1.3.13. Contradictory trends and difficulties in planning

The research results outline a positive picture of the planning capacity of the municipalities and districts although accompanied by **contradicting tendencies, preservation of some deficiencies and emergence of new problems. The positive attitude to planning is weaker in the small municipalities.** 20% of the small municipalities consider that participation in planning is pro forma and that there is no use of participation in the planning process since their position is not taken into account and 15% of them consider

that execution of national, district and regional plans and programs is responsibility and obligation of the central authorities.

The participation of the representatives of the district administration and central authorities in the municipal planning is decreasing and the participation of the central authorities in the municipal planning is slightly increasing. The 2004 report considers this new participation as a sign of centralization and an attempt to 'lobby' for resources at a central level. However, this tendency is rather negative, especially in respect to the district planning. In the conditions of relatively centralized resources and implementation competencies, the participation of the central authorities and their deconcentrated structures is a basic prerequisite for plans implementability and an instrument for coordination and regionalization of the sector policies.

At the same time, there are enough indications and assessments that place doubt on the quality and efficiency of planning with participation, which quite often is only pro forma and reduced to informing and approval of decisions already made, without actual consulting or jointly made decisions. This is a situation, which on the grounds of the experience of the NGOs in the new EU member states, is labelled as 'illusion of inclusion'.

Problematic are also **municipal assessments of plans and programmes on a higher level**. All planning and programming documents receive satisfactory evaluations and the share of those who give high marks does not exceed 20%. This shows that either plans and programmes do not reflect sufficiently the needs and perspectives of municipalities or their content has not been communicated suitably and in sufficient volumes to the municipalities.

1.3.14. Threats to plans implementation

On the whole municipalities and districts overcame the challenges of the planning process in 2004-2005 and development of the new plans and strategies stipulated under the Regional Development Act. Yet they speak of problems of their **quality, implementability and their consideration in the development of the operational programmes**. The reason may also be in the Regional Development Act which aims at appropriate and doable development action on the local and regional level and access to funding but puts in place far too complex procedures and is not backed up by adequate secondary legislation in the preparation of the process.

A critical risk is the implementability and delivery of the plans and the strategies. In this respect there is no considerable change for the municipalities compared to 2004 results and districts report even deterioration with significant increase in the share of districts stating that their strategies are not being implemented in reality. Only half of municipalities and a little over 1/3 of the districts declare delivery of at least half of what is planned in accordance with the plans now in effect. This gives rise to doubts in the implementability of the

new planning documents, a risk that is, data suggests, higher for small and medium municipalities.

At the same time the unclarity in the planning process has decreased which is indicated by the sharp drop in the share and relative position of the recommendation “Clearer national development strategy and financial framework”. Regional and local actors clearly accept that such a framework already exists. It is clear at the same time that the resources to back up municipal plans implementation and in particular district strategies implementation are not part of this framework. It seems there is a need to rethink and communicate in a suitable way the purpose and nature of the district strategies and regional development plans which are not so much planning documents that are being carried out directly but documents conveying information to other plans and programmes.

1.3.15. Inter-municipal cooperation is lagging behind

Against the favourable overall background of partnership, inter-municipal cooperation is lagging behind. Municipalities rank first in terms of importance interaction with other municipalities, but similarly to planning, here too, in project work, evaluate this as unsatisfactory to satisfactory. Far too often they see each other as competitors, have no direct economic stimuli to cooperate, have no experience, do not understand the benefits of cooperation and do not take into account the interests of other municipalities. Failed partnerships have for them a less restrictive effect, together with different political affiliations of mayors or municipal councils majority, the feeling for unfair distribution of benefits, personal conflict or lack of suitable partners among neighbouring municipalities.

Regional municipal associations may act as one of the organizational forms to overcome difficulties in inter-municipal cooperation and build the capacity of municipalities to use structural funds. The better part of municipalities see their membership in regional associations as useful, rely on them for the capacity building of their staff, for the initiation of joint projects, the attainment and expression of common stands, the lobbying effort. They see them as less important in the preparation of project proposals for individual municipalities, which may turn into a problem as this seems to be among the greatest gaps there are, especially in smaller and weaker municipalities.

1.3.16. Contradictory assessments and differentiation of experience in partnership with other organisations

It is a **negative** fact that taken the large importance municipalities attach to partnership with various organizations, the assessment given to real interactions a municipality **had in the development or implementation of projects is considerably lower**. There is some **mismatch between the mutual evaluations exchanged between municipalities and NGOs** which may be due to asymmetrical benefits. It seems in the pre-accession period municipalities were more useful to NGOs than the other way round. After accession this may grow into a problem as municipalities will be a considerably larger user of projects than NGOs. The mismatch between municipalities and businesses is larger. The

predominant mutual dissatisfaction among them is a considerably more severe problem than asymmetry in evaluations between NGOs and businesses.

Compared to municipalities, **district administrations** give much higher marks, especially to cooperation with municipalities, but still there continues to be some problem in terms of inter-district cooperation. At the same time there persists the considerably lower evaluation of cooperation with regional and national NGOs. This low evaluation is a problem **as regional and national NGOs should be relied a lot more on precisely in the preparation of district and regional plans and strategies.** In this case they are more important than local NGOs, who receive a higher evaluation.

There is a broad differentiation between municipalities in terms of practically all issues of partnership. This is both in terms of municipality size and in terms of municipality location. Often smaller municipalities have more difficulties in partnership and voice a higher degree of dissatisfaction.

One problem is underestimation of improvement in interaction with other organizations from administration, NGO sector and businesses when identifying priorities for capacity development. Municipal and district administrations either do not realize the importance of this interaction or see the situation in this field as satisfactory.

1.3.17. Fragile project partnership

Experience in project partnerships shows considerable improvement – there are no municipalities and almost no districts who do not consult their project with some groups of stakeholders. Nevertheless there are problems and risks as partnership is fragile and has not grown into a sustainable practice yet. For the time being it is rather sporadic - cases of partnership for a specific project are more than two times more frequent than intra-municipal partnerships with half of municipalities and only for 6-7% of inter-municipal partnerships.

There continue to be considerable differences in the degree of spread partnership has and the situation is more unfavourable in smaller municipalities for which partnership seems more necessary.

1.3.18. Difficulties in the self-identification of needs

A problem that warrants special attention is the ability of municipal and district administrations to identify and prioritize their own needs for capacity development. One considerable part of municipalities who through their answers to other questions indicate they suffer from serious gaps in certain areas do not mention the same areas as priority ones for their capacity development. This is particularly problematic when it comes to critical needs such as improvement of financial resources, project experience, availability of trained staff or degree of awareness. This could be accounted for by low awareness and preparedness of some of the municipalities that prevent them from evaluating realistically their needs. Interpreta-

tion, however, needs to be more careful – needs are numerous and many of them urgent, which makes it difficult to select the most important ones.

1.3.19. Unsatisfied staff training needs

Evaluations of the current state and the trends in training and availability of trained staff in municipal and district administrations are contradictory. Despite the intensification of training, meeting needs in terms of quantity is far from the perfect state, the structure of those trained does not follow in the requisite degree the change in needs, and inequalities in terms of availability of trained staff persist, albeit not that sharp. Even if we take the lowest estimates for the quantities needed, since 2004 those have been met at 50% for the municipalities and 70% for the districts.

1.3.20. Mismatch between training demanded and training supplied

Gaps in quantities, however, are for training the smaller problem. There is a drastic mismatch between the supply and demand in training **from the point of view of nature of information and skills, knowledge and habits developed**. Both districts and municipalities expect training that forms specific knowledge and skill, especially in project development and not introductory and general information and this expectation is intensifying compared to 2004. Instead of this, in the opinion of 70% of municipal and 80% of district administrations, what they receive is mostly introductory training giving background information. The worrying thing is that there has been no positive development vis-à-vis this mismatch in the past two years. It is clear that the training offered followed the path of least resistance, emphasizing on quantity and underestimating appropriateness, quality and efficiency, thus also the usefulness of training. Among the concrete weaknesses of the training supply are: chaotic training from many organizations without any attempts at standardization; one and the same title covers courses different in content, targeting, duration and outcome; shallow design of programmes; presentation of information days on grant schemes as training; lack of advance surveys of needs; last but not least, quality of training products and trainers.

1.3.21. Unfavourable forecast regarding consulting assistance

There are considerable needs for use of **consulting assistance**, especially in project development. In fact there is no municipality that does not need such support and those needs are lasting and have not changed considerably since 2004. 82% of municipalities state they need specialized surveys and evaluations linked to project development. 2/3 of the municipalities have used consultant support for the preparation of planning documents. The main problems and threats in this field are:

- In this aspect, too, the small municipalities are in a disadvantaged position – less than 60% of them have used consultants (as compared to 80-90% for the large municipalities), and the increase in their case is the weakest as compared to 2004.
- Until now the use of consultants in relation to planning has been strongly dependent on the donor aid; after withdrawal of donors, customary during transition, there may be a

vacuum, especially in respect to the small municipalities with limited own resources

- The operational programmes provide for considerable resources in support of project development in municipalities. There are, however, at least two limitations here. Firstly, the planned support for the municipalities can meet only part of the needs. Secondly, forecasts on the launch of the operational programmes are that resources will be accessible most probably in the end of 2007 only, which may lead to considerable delays in project design and, as a result of this, in programmes' implementation.
- There are delays in Phare projects which are supposed to provide preparation for the Structural Funds projects
- Efficiency of consultant support up to now is questionable and depends on the quality of consultants, which, too, may be doubted. This threat is aggravated by the fact that if the provisions of the laws on public procurement are applied only formalistically, price is given preference to quality and to the value-for-money ratio.

1.3.22. Unclearly on the issue of who should provide support

All municipal and district administrations on the whole think that there is a need for an organization that provides information, training, consultations and expert support to local actors. There does not emerge, however, a predominant vision as of the type of organization that may act as a 'supplier' of information, training, and support in the use of the structural funds. If districts and municipalities give highest preferences to organizations from administration, NGOs like better support through NGOs or consultant companies. The better part of actors, however, express stronger preferences for organizations on the national level, albeit form a different type: municipalities and districts – more ministries and agencies (42% and 36%), NGOs – national NGOs (30%). Businesses prefer in the highest degree (30%) consultant companies which cannot be linked to a particular territorial level. Another similarity in the views of all actors is low levels of trust they have for the higher educational establishments as a potential supplier of support.

The capacity of the regional level seems grossly underestimated in terms of district administrations, deconcentrated structures of ministries and regional NGOs. Municipalities do not share the view that their regional associations may play a decisive role in the provision of support for the use of structural funds – only 3% of them state as their preferred organization the regional NGO. At the same time district administrations themselves do not see themselves as a provider of information, training and support (7% of replies among districts). This situation may be explained with the combined action of two possible factors: a) local actors, especially municipalities and district administrations, attach greater importance to the quality of support (resp. to the capacity of the provider) than to its proximity and accessibility; and b) they are convinced that support capacity is largest with central government which to a large extent corresponds to their experience and practice up to now.

Both the survey on NGOs and businesses and the survey on municipalities and districts in 2004 argue for 'regionalization' of support for local actors in the use of structural funds.

Comparative analysis of partnership in the use of the structural funds, too, identifies as applicable in Bulgaria the practice of the regional support organization. This approach is also adopted by the Regional Development OP. It is clear, however, that at this stage this does not seem to be the best solution for the local actors themselves.

1.3.23. Unfavourable differentiation of municipalities

On the whole the best prepared and with strongest capacity municipalities are the very large ones (50,000 to 100,000 people) and the largest ones (over 100,000). They have specialist structures, adequate information, trained staff, better capacity in financial resources, experience in planning and project under the pre-accession instruments, they are more open to partnership and more satisfied with its outcome. Strong municipalities, as strong NGOs, are consistently strong in all or the majority of aspects of capacity for participation in the structural funds.

Conversely, small and medium municipalities, despite the considerable progress on 2004, lag behind, sometimes seriously with respect to the better part of elements of capacity for structural funds use. With respect to many capacity issues, lagging behind are also considerably big for Bulgaria municipalities of up to 50,000. Parallel to this, capacity is unevenly distributed across the territory of the country and for many of the issues the municipalities of the North-West region turn out to be in a more unfavourable situation in contrast to municipalities from the South-East region.

Added to this is the human resources problem. In 2004-2006 small and medium municipalities on the whole did not reach the critical mass of trained staff, there is a large share of municipalities without trained staff or with only 1-2 trained staff (45% for small and 35% for medium municipalities). Only 40% of municipalities have trained staff in all or almost all thematic areas linked to structural funds. For small municipalities especially, attaining this critical mass seems difficult for the future, too, bearing in mind the smaller size of administration and the smaller capacity to 'set aside' people for training, especially when this lasts longer.

Albeit in a milder version, there persists the vicious circle of low capacity for funds absorption that was identified in 2004 – municipalities with smaller capacity do not get access to projects under the pre-accession instruments and subsequently form the structural funds or other funding sources and as a result of this cannot develop their capacity and catch up with the rest.

1.4. Recommendations

Despite sizable improvements in the past two years on a range of indicators, substantial problems still exist that will require express efforts prior to accession and in the first few

years afterwards to enable structural funds to function properly.

In general terms, it is recommended that capacity-enhancement measures be reconsidered so that they would **not be associated solely or exclusively with the delivery and respective utilization of training opportunities**. A more comprehensive approach is called for, incorporating action, both internal and external to municipal and regional administrations. External action is needed in order to improve financial capacity and internal action – to resolve problems related to quality and the motivation of personnel engaged in the up-take of structural funds. **Horizontal** policy in support of all municipalities must be complemented by a **differentiated** policy towards small and struggling municipalities while at the same time increasing the **responsibility** of municipal and regional administrations vis-a-vis their own capacity, as an alternative to the culture of dependence.

1.4.1. The need for a readiness standard

Deteriorating self-assessment of municipal readiness to up-take structural funds, given their obvious growing project and programme implementation expertise, clearly points to **the absence of a robust standard for municipalities to emulate**. They do not know the meaning of structural fund readiness and do not receive timely and unambiguous feedback on the matter. To overcome the conundrum central government needs to urgently develop a check-list. This must be circulated to municipalities and regions, allowing them to assess themselves and recognize components for which they are better prepared, others which lag behind and where they need to apply extra effort in the months preceding accession. and immediately afterwards. Caution should be applied in judging whether municipal and regional authorities will be required to submit the respective data to central government because that would distort information i.e. some will strive to present themselves as top scorers, others will bemoan excessively.

1.4.2. Comprehensive capacity-building action aligned with specific needs

It is necessary to reconsider capacity-enhancement measures so that they would **not be associated solely or exclusively with training**. There is a need for a more comprehensive approach that accommodates diverse capacity facets and related needs, and also incorporates action, both internal and external to municipal and regional administrations.

Concurrently, there is a need for **a more dedicated and differentiated approach to satisfying the capacity-building needs** of municipal and regional administrations which mirror to a greater extent the idiosyncrasies of individual groups of municipalities and regions, their current readiness, specific capacity deficiencies and their gravity and last but not least, probable participation in the up-take of structural funds. This entails a more in-depth analysis and needs prioritization by both municipal and regional administrations, and the organizations that provide capacity-building support to the above.

1.4.3. Shift in the awareness focus

Analysis shows that major awareness problems arise not from the quantity and currency of information but primarily from its structure and quality. For that reason, the main guidelines to improve awareness comprise:

- Greater **focus** – informing primarily those who need it and providing only information that is needed.
- Shifting the focus from mainstreaming to quality and efficiency. Enhanced **accessibility and comprehensibility of information** is of critical importance. Since municipal administration and the staff employed by it cannot change in the short term, it will become imperative to swiftly adapt information and training formats to the language, experience and proficiency of these resources. The content of information and training and the knowledge, skills and habits shaped thereof, must be urgently adapted both to the needs and the comprehension thresholds of the target groups.
- Having in mind how important it is to possess knowledge of the sources of finance to ensure the success of project development, it is necessary to **distribute specific information about funding possibilities under operational programmes in a timely fashion** and also structural fund practices (such as those in other countries). The dissemination of information should not be viewed as a single act but rather as a process where type, size, level of detail and specificity change as development and implementation of operational programmes progresses.
- The existence of relatively complete, detailed operational plans is conducive to proper and practically-oriented awareness. This does not mean that information delivery should begin upon operational programme finalization and approval but simply that sufficient clarity should exist with regard to issues of interest to beneficiaries (eligible applicants, eligible activities, project size, necessary preliminary preparation, rough schedule, project selection principles, sources of additional information).
- Special attention must be attached to possibilities created by seminars and information days to provide information addressing the needs of specific target groups because they are one of the main channels to enlighten municipal and regional administrations.

1.4.4. Quality, effective and coordinated training

Although satisfying training needs quantitatively continues to be a problem, the main thrust of municipal and regional administration training is associated with improving the quality, effectiveness and usefulness, as well as the coordination of training. Specific recommendations on the issue envisage:

- Making the utmost effort to meet quantitative training needs prior to the launch of the operational programmes. This is valid for the efforts and resources that municipalities and regional administrations need to invest themselves. In view of the urgency of these needs and resource constraints, substantial support would have to be provided by donor programmes, pre-accession instrumentalities and national sources of finance.
- Clear **separation** of information delivery from training.
- **A more focused and differentiated approach to satisfying training needs**, in

other words abandoning the dominant until now mainstreamed uniform training. Training should be based on a more comprehensive and in-depth needs analysis, incorporating diverse approaches to different target audiences (such as municipalities and regions, different categories of municipalities, different staff categories etc.). And last but not least, training should accommodate the disparate needs and barriers to participation of employees of municipal and regional administrations who are better trained, informed and comparatively better prepared than those who have not been trained, are less aware and largely unprepared.

- **An overall shift in training to capture the new needs of structural fund arrangements.** Each training course should reflect the need to shape the knowledge and skills germane to those arrangements. It is thus vital to transform (“translate”) formal requirements, contained in regulations, funds and operational programmes, into practical knowledge and skills that beneficiaries and other players in implementation must acquire.
- A careful **balance between predominantly inception training and applied training, producing specific knowledge and fomenting practices and skills.** The need for inception training will not disappear but this needs to occupy a much smaller share, be focused on specific target groups such as newly elected mayors and municipal councilors, newly appointed staff or be suitably integrated into applied training. In any case, it is necessary to make a transition from general and abstract to specific and operational knowledge. In the near future, in particular prior to the launch and at the start of operational programmes, general practice-based “technical” training in project development seems most effective, although this too may and must be combined with the adaptable integration of individual programme requirements and be offered and implemented with particular programme beneficiaries in mind. Training, seminal to specific programmes or measures, which will definitely be in greater demand after programme launch, must not simply be confined to presenting project and beneficiary requirements in relation to a given programme, but ideally include a blend of training and consultations.
- Compliance with the new needs imposed by structural funds arrangements will necessitate **concentration of training primarily on project development and implementation.** Such a focus should not lead to the marked disregard for planning skills, creating and working in partnership and other aspects, some of which may be advanced in the course of project development and implementation training.
- There appears to be a need to provide specialized training, in particular for managing bodies and intermediary bodies, and by the same token for organizations capable of providing support to municipalities (NGOs and business entities as well) at the regional level.
- Effective training that ensures meeting quantitative needs, high quality requirements and properly balancing benefits and costs involves **an entire coordinated programme** as an alternative to individual piecemeal and oftentimes overlapping activities for the same actors. The coordinated programme does not mean centralized provision of training from

one point, but rather subordinating that to common goals and principles and coordination of the actions of different paying authorities and training providers.¹

- Raising the level of responsibility of trainee organizations by introducing minimum co-financing requirements and/or other commitments associated with the training such as ensuring the attendance of designated staff members, definitive career prospects and others.

1.4.5. Offsetting municipal financial capacity deficits

Addressing **the issue of limited financial resources** entails the careful balancing and synchronization of three approaches:

a. **The long-term solution comprises the overall upgrading of the financial capacity of municipalities**, transforming them into a powerful participant in the up-take of structural funds, on a par with central government. This solution is directly related to the **deepening of the process of decentralization, fiscal decentralization included**. It should be remembered that fiscal decentralization provides a municipal capacity solution in general terms but would rather aggravate than resolve the capacity problems of smaller and disadvantaged municipalities, unless strong equalization mechanisms are envisaged. Although steps in the direction of decentralization are required, one should not forget that the aggregate impact cannot be felt immediately and this will probably affect structural fund use rates in the next programming period at the earliest.

b. **The mid-term solution** is reflected in the notion, debated in recent months by Government, of creating a **special fund** (local government fund, FLAG)², which will lend to municipalities to cover co-financing needs and partial expenditure, preceding reimbursement by EU funds. This vehicle, however, is associated with a variety of constraints and risks:

- The mechanism is complex and alien to the majority of municipalities and municipal administration expert staff.
- Because of its complexity, the Fund mechanism requires experienced managing bodies and intermediary bodies, experienced staff at the Fund itself and, first and foremost, experienced beneficiaries.
- The time allotted for training is by far insufficient to allow municipal financial departments to turn it into a routine task.
- The Fund mechanism may further complicate and delay the entire project approval, implementation and monitoring procedure.
- For the time-being the mechanism does not employ a differentiated approach; in general, it seems better suited for larger municipalities and larger projects.
- The entire financial risk is assumed by the beneficiary which jeopardizes the sustainable and large-scale application of the instrumentality as a whole.

¹ A set of specific recommendations to shape a similar programme that appear valid but cannot be drawn directly from the findings of the current study are contained in the study dated 2004 (pp. 51-53) and also in the survey conducted by NGOs and corporate entities (pp. 144-145, 155-156).

² Mihalevski, D. A Financial Vehicle for EU Fund Project Development and Implementation at the Local Level (<http://www.mrrb.government.bg/news.php?n=1112>)

- Ultimately, the Fund is a credit instrumentality while the bulk of municipalities have no experience in obtaining and servicing loans which places psychological barriers, difficult to overcome in the short-term, compounded by political risks.
- There is also a macro-economic risk because Bulgaria lacks expertise in municipal lending and one cannot rule out an inclination to transform municipal debt, accumulated through structural fund operation, into central government debt.

c. The short-term solution is associated with directly offsetting existing municipal financial capacity deficiencies. In other words, softer matching finance requirements and provision of support to ensure necessary funding for project implementation preceding disbursements from the funds. To achieve this, simple and familiar to all administrations instruments must be used³.

In this connection, the intention to completely co-finance municipal projects out of the National Budget for the first three years should garner a positive response, given the gradual increase in the share of municipalities after 2010. These intentions however are also burdened with problems that require their revision and adjustment:

- Application of a uniform approach that neglects the different capabilities of municipalities. The tool should address inequities among municipalities but it treats them as equals;
- Rapid downsizing of government participation in municipal project co-financing appears possible only if paralleled by a considerable increase in free resources available to municipalities which is very unlikely in the near future.

In order to provide differentiated support for matching funds in the broadest sense, municipalities have to be grouped in an appropriate and acceptable manner. It would be reasonable to let municipalities propose municipal classification regarding matching fund requirements and differentiated support respectively, through the National Association of Municipalities for example.

The above approaches and instrumentalities should not be viewed as alternatives. Early on it would be most expedient to blend more conventional and familiar subsidy mechanisms with the gradual introduction and expansion of more novel and promising lending schemes. While combining these two approaches, municipal size and capacity should be taken into account, as well as the magnitude of funded projects.

Whatever the decision, it must be simple, quick and built into the operational programmes design and not simply be announced to municipalities and regions. The latter should receive practical training as to when, where, how much and how they will receive the necessary matching funds.

³ For example the target subsidies model for municipal capital costs, feasibility study budgets of ministries, the budget of the Ministry of Regional Development and Public Works for the water supply system, the fourth grade road network scheme, the Social Investment Fund, the Environmental Action Managing Body.

1.4.6. Effective use and development of human resources and administrative architecture

Some problems cannot be resolved by information and training delivery alone. The **personnel recruitment policy** of municipal and regional administrations needs to change. The lack of specialists, needed for structural fund project development and implementation (i.e. engineers, economists) can hardly be compensated by short-term training. Personnel policy must be underpinned by needs, associated with structural fund up-take and the recruitment of experts with the appropriate education and specialist qualification.

The **motivation** of staff, directly engaged with structural funds, also needs improvement.

There would be benefits in supplementing the change in personnel policy with a change in **organizational culture**. Understaffing can frequently be resolved by restructuring and reassignment of responsibilities rather than an increase in the administration payroll. In any case, it would be necessary to define responsibilities pertinent to structural funds, inclusive of reinforced political responsibility e.g. a deputy mayor who is responsible for investment and structural funds. Oftentimes, these responsibilities would be appropriately concentrated in one administrative unit, particularly in larger municipalities. Other suitable mechanisms would be the incorporation of the respective structural fund duties into job descriptions, the express inclusion of structural fund responsibilities in the terms of reference of specialized municipal council committees, the holding of special municipal council sessions.

Specialization and assignment of structural fund responsibility alone are not enough. Sustainable municipal capacity is dependent upon the **involvement of a broader range of suitable staff in project development and implementation**.

Enhanced **inter-municipal cooperation** and the maintenance of joint experts or joint project development and implementation units is an effective solution to limited specialization in smaller municipalities in particular. Such cooperation may be sought with the non-governmental sector while keeping in mind that municipalities with weak and curtailed administrations also have a weak NGO sector.

1.4.7. Rapid approximation of the *modus operandi* of national programmes with that of the structural funds

Despite significant improvements in the past two years, municipal capacity to develop and implement projects remains fragile and disparate. It is important therefore to endeavour to develop it prior to accession and in the first few years of structural fund up-take, to avoid the vicious circle of capacity and participation in SF use that would undermine their objectives from the standpoint of “internal” approximation. Although the 2004 recommended “national programme” for municipal capacity building and “national pre-accession fund for on-the-job learning” failed to materialize, there still are possibilities and likewise

time to take effective steps.

Given the growing importance of national sources of finance in accumulating project experience, it is necessary to quickly approximate operational methods with those of the structural funds. Such a recommendation is not untimely, particularly in view of the remote possibility of gaining extensive access to operational programmes resources prior to the end of 2007.

1.4.8. Operational programme design aligned with beneficiary capabilities

The design of operational programmes and implementation details in particular must be matched to the capabilities of the beneficiaries and the difficulties articulated by municipalities and regional authorities. This presupposes adherence to several fundamental principles:

- Simple and efficient process design, including avoidance, as far as possible, of unnecessary complications and red tape, carefully evaluating whether projects should be accessed competitively or in order of proposal submission while complying with quality criteria and other requirements;
- Ensuring objective and transparent decision-making in project financing;
- Clear, legible and unambiguous project documents;
- Co-financing conditions that match beneficiary capabilities⁴;
- Encouraging project partnership – intra-municipal and inter-municipal – when apparently needed, appropriate and bearing “added value”⁵.

1.4.9. Enhancing processes and planning capacity: transition from planning to implementation

An analysis of the state-of-the-art and the trends in development planning shows a more tangible shift in attitudes rather than in the existing situation. Despite sizable progress quite a few deficits remain. Within this context, the main recommendations in relation to planning and planning capacity of municipal and regional administrations are as follows:

1. Shifting the focus from planning and the generation of “planning documents” **to implementation of what is planned.** Planning should not become an end in itself and an exercise for its own sake. What is planned and how it is planned is not of critical importance, rather will and how implementation of what is planned be ensured. In light of this, intentions of serious amendments to the regional development law, affecting the planning system, among others, such as planning documents, institutions etc, seem risky. Although the existing system is not perfect, its alteration in the near future would be meaningful only if and inasmuch as it supports the better implementation of existing plans and up-take of structural funds and other public resources. The transition from planning to implementation requires in particular:

- **Communicating and explaining the content of all operational programmes,** during whose implementation municipalities and regional authorities are expected to

⁴ See item 7.4.51.4.5

⁵ See item 7.4.101.4.10

play a more substantive role, particularly as beneficiaries⁶.

- **It is necessary to clearly appreciate the linkage between planning documents and financial resources.** This means clear and specific communication of the very nature and role of plans at the sub-national level from the point of view of access to EU funds. It should be made clear that in this connection, in many cases a “new” and far more detailed and dedicated planning process may be required, in order to access funding. This new generation of plans must be **pragmatic, resource-based and specific output-oriented**.
- **Optimal use of existing plans**, inclusive of operational decision-making and decisions about funding public interventions. The performance of activities external to and independent of existing plans is a key factor in demotivating participants in planning: “Why should we plan if what is planned is not being implemented, while the action taken has not been planned?” This is a recommendation pertinent not only to structural funds up-take or only to national funding, it is also intended for local government because the linkages between municipal budget development and approval and municipal development planning cannot yet be considered a mainstream practice.

2. **Promoting planning processes with the participation of interested parties and relevant capacity building**, in order to maintain, expand and intensify accumulated experience. The capacity built to date still appears unstable and should be used and strengthened whenever necessary and appropriate. Such processes should not occur as an end in themselves but be used only when they themselves, or the outputs therein, have a clear goal and are related to the structural funds up-take or other significant public policies. It is also necessary to pay more attention to process quality, efficiency and effectiveness and the creation of the relevant prerequisites. Said processes will frequently require **appropriate advisory assistance** which must be provided while at the same time warranting quality, formats aligned with needs and conditions ensuring equal access to such assistance. Such support is exceptionally important for **small municipalities** which exhibit bigger deficits in their development planning experience.

3. **Maintaining the functionality of regional development councils while at the same time raising their effectiveness**, including assignment of new functions, when appropriate. Though not perfect, these structures have been set in motion and their regular functioning, pertinent to resolving important issues, is of paramount importance so as not to waste but develop existing procedures, connectivity, relationships or generally speaking behavioral patterns. A case in point is the approach employed by the Regional Development Operational Programme which uses regional councils to channel and monitor support intended for integrated local development⁷.

4. In the mid-term, for instance *circa* 2010, a **revision and an overhaul of the planning and programming system will be called for**, that must be more pragmatic, simpler, in keeping with the environment, including the capacity of planning participants, focused on channeling resources and ensuring implementation. Such a change should be pre-

⁶ See item 7.4.31.4.3

⁷ In particular priority 4.1.

ceded by **a more comprehensive appraisal** of the implementation of the Regional Development Act, of planning documents and processes and their implementation, in the first years of structural funds utilization.

1.4.10. Utilizing the benefits of partnership

The survey indisputably shows that in recent years much effort has been invested in making municipalities and regional authorities aware of the benefits of partnership in project planning, development and implementation. At the same time, however, knowledge has remained superficial, misguided expectations have been engendered and wrong perceptions have persisted.

1. It is necessary to make an extra effort to change the perception that municipalities are competing among themselves for structural funds money. This should be clearly discernible in programme design which should stir clear of competition in reviewing and approving projects and simply adhere to the date of submission and validated compliance with programme objectives and requirements.

2. The view, articulated by municipalities and regional authorities that incentives for cooperation among municipalities are non-existent, shows that unless such incentives are envisioned in the operational programmes design, significant changes in the mid-term are unlikely to occur. Incentives must be sought urgently for inter-municipal cooperation such as the building of joint project development and management centres.

3. It is imperative to address the dissatisfaction with partnership among municipalities and local businesses, and also between regional administrations and businesses which remains an open issue in 2006. Pre-eminently it is necessary to belabour the point that entrepreneurs generate development, rather than municipalities, regional authorities or ministries. There is a need for training and facilitation of the interaction between municipalities and regional authorities with business entities which requires a special approach and a good appreciation of business interests, motivation and ethics.

4. Regional associations of municipalities should be more active in initiating and assisting inter-municipal partnerships, and in initiating joint project proposal development. Regional associations of municipalities are facing a choice – either learn to support its members to improve inter-municipal cooperation, which is topical and important regarding structural fund up-take, or retain traditional functions which may render them useless.

5. The lack of project experience under conditions similar or identical to structural funds puts at risk their future use and should be addressed without delay through special training and mandatory measures, taking into account the characteristics of the region, the size of the municipality and its financial capacity (e.g. acknowledging interests, resource and benefit sharing, effective partnerships, to mention but a few).

1.4.11. Provision of pre-emptive and permanent support

Small municipal administrations, plagued by a shortage of university graduates fluent in English, the small number of project-literate staff, poor specialty training and combining structural fund management with other tasks and responsibilities would not be able to

tackle these issues neither prior to accession, nor in the first years following it. To offset these deficits **a permanent support framework** needs to be designed promptly.

1. Urgent but well-coordinated steps are needed **to provide much needed advisory services to municipalities prior to the launch of operational programmes**, some of which require tapping into national funding sources. More importantly, **guaranties must be provided to ensure** consultancy services **quality and effectiveness**. This entails proper articulation of consultant requirements, selection procedures and outcome monitoring. Last but not least, consultancy assistance issues should be addressed through training as well: **training for consultants** and also **user training** as to when and how to use consultancy assistance.

2. National action alone, however, cannot guaranty quality consultations and their effectiveness, especially when they are being funded and awarded directly by municipal authorities. In other words, municipalities are largely responsible for the use of resources allocated for such support. It seems appropriate that municipal organizations such as the **NAMRB, regional associations**, provide support in this area, particularly in choosing consultants, by providing information about suitable organizations to be invited, information about their track record and other such.

3. Project development and implementation assistance, within operational programmes in particular, must not be limited to the dissemination of information about formal requirements and procedures alone, it should encompass **tangible support** such as manuals and other support material, responses to queries, opinions and project advice, project concept advice and others.

4. Given the long-term nature of structural fund operation and overall local and regional development actions, it seems appropriate to create **sustainable** support structures. The provision of support to municipalities and other local players in development in principle seems more effective and efficient at the regional level. To be able **to ensure that support is largely provided by regional organizations**, be they public administration or NGO representatives, it is necessary **to foster organizational capacity** to provide support at the regional level, to change municipal and regional perceptions and engender **confidence** in their capabilities. These organizations need specialized training, different from mainstream training on the up-take of structural funds. The role of regional administrations and regional associations of municipalities should be defined within the context of structural funds, and in particular their role of facilitator that could affect partnerships, planning, project proposal development and individual projects for disadvantaged municipalities. This is of exceptional importance for municipalities with low NGO penetration.

5. There are no definitive preferences as to who should provide this support but certain considerations must be taken into account:

- Regional administrations may provide certain assistance, in particular as catalysts, project facilitators and partners, but in view of their own limited project experience they cannot be relied upon to directly channel effective technical assistance on their own;
- The NGO sector support capacity should be viewed with greater discrimination – only a select group of NGOs and companies, among them associations of municipalities, have the capacity that would allow them to furnish quality support. However, the problem lies

in the low confidence the municipalities have in regional associations as support providers.

- Inter-municipal cooperation may be regarded as an important tool for capacity building and utmost utilization of existing capacity, whereby “resource and capacity sharing” is effected between the stronger, usually larger (urban) municipalities and the weaker, usually smaller municipalities.

1.4.12. Streamlining the role of regional administrations

Special attention should be paid to the rapid identification and explanation of the role of regional administrations whose expectations do not unassailably consign them either to the programme management community or the development community. In actual fact, they are a borderline case but in our view are best suited to assume the role of **catalysts, facilitators, mediators, coordinators and assistants** to other actors from the community vis-à-vis development in their area, which is in many respects a natural projection of their strong position in planning at the provincial and regional level⁸. The latter is exceptionally important for many regions with a disadvantageous municipal structure (many small-sized municipalities with low revenues and limited staff etc.), incapable of organizing and funding project development on their own.

This role calls for a change in attitudes and the work approach i.e. more individual meetings with local stakeholders on their own turf as an alternative to formal sessions at the regional centre. It also entails an increase in regional administration funding and dedicated training on their facilitator role. Priority 4 of the Operational Programme for Regional Development offers a model for this regional governors' and regional council's role that could find application in other programmes, outside structural funds as well.

1.4.13. Taking care of weak municipalities

Although all municipalities need support, targeted and comprehensive support is needed for smaller and disadvantaged municipalities so as not to fall into the vicious circle of poor capacity for funds up-take. Although project experience has been accumulated at faster rates in smaller municipalities in the past two years it is still considerably scantier than the experience of medium and large municipalities. They suffer shortages even in technical back-up which is not a problem for municipalities in general. We cannot expect their capacity deficits to be counterbalanced by partnering with the NGO sector or other municipalities, or by training, because these municipalities find it difficult to “set aside” staff for participation in intense training courses. As has already been noted in some analyses, these municipalities need to be “taken care of”⁹.

Potential options include:

⁸ On structural funds and the role of municipalities and regions see also the Introduction.

⁹ Garnizov, V., V. Marinov et al. Strategy for Socio-Economic and Political Development of Bulgaria 2005-2010: civil debate. Regional Development, Local Government, Infrastructure (Draft). S., Open Society, 2004.

- more substantial and professional technical assistance, covering not only the technicalities of project development but also project identification, forging partnerships and working in partnership¹⁰;
- privileged access to programme resources;¹¹
- committing resource appropriations only for “small” and “disadvantaged municipalities” (providing equal opportunities in competing for resources)¹²
- or, in a perfect world, a suitable combination of all three options.

The plain provision of additional resources to smaller municipalities is not a sustainable solution insofar as the use of these resources also requires capacity. In any case, effective support for small municipality capacity building is preceded by insightful identification and thorough understanding of their actual needs and deficiencies, of which only a fraction can be captured by surveys like the current one, whereas the goal of support should be to bridge the gap between their legal capacity, on the one hand, and their technical and financial capacity, on the other.

Given the existing disparity in municipal capacity characteristics, further intervention by the government in preparing for structural funds should be subject to careful consideration as to whether efforts should exclusively focus on capacity building in municipalities with a population **under 20 000 thousand** or whether the scope should be extended to cover municipalities with a population of **20-50 thousand**. The latter is recommended as this is a borderline and problem-ridden category in most other areas. In this connection, one should recognize that a small municipality does not always mean a poor and weak municipality but in any case it means that it is a municipality of limited resources (in absolute terms).

1.4.14. Municipal and regional administration responsibility toward developing their own capacity as an alternative to the culture of dependence

The predominantly external actions listed are decidedly insufficient. **Improving structural fund up-take must not be viewed as an exclusively central government task.** It is beneficial and should, therefore, be entrusted to those very municipalities and regional authorities. Municipal and regional administrations need to invest own efforts to tackle the problem they are facing which can be summed up as limited resources in the broader sense (not only financial) to exploit the possibilities offered by structural funds. Survey data and conclusions suggest the following underlying principles:

- Timely investment of effort and resources in building own capacity.
- Reconsidering self-assessment of the readiness to up-take structural funds, alignment with the experience of each municipality and regional administration and **identification of key "internal" deficits and weaknesses** that must be overcome. It is not easy for municipalities and regional administrations to revise that appraisal, it would be

¹⁰ See Regional Development OP, priority 4.1 and 4.2

¹¹ See item 7.4.5 1.4.5

easier to do through internal dialogue, in an exchange with central government and consultants. The analysis of incompatibilities, combined with the readiness self-assessment check-list in item o, are a tool, **exceptionally** well suited to that end.

- **Realism**, matching possibilities and accepting resource limitations as a given requires prioritization and concerted effort. It is important to find the ultimate balance between action and effectiveness in attracting resources out of structural funds. This should be interpreted as applying caution in project selection, consistent with priority needs and available capabilities. Undesirable extremes include a profusion of ideas that do not translate into specific project proposals, abundant but poor quality proposals or too few, though high quality proposals.
- Maximum **mobilization of own resources** and their investment in attracting and effectively using structural fund financing. The squandering of efforts and resources must be avoided with respect to non-bankable activities from the standpoint of operational programmes.
- **Consolidation of resources with those of other stakeholders** – other municipalities, regional administrations, non-governmental organizations and businesses to more effectively resolve shared problems and achieve common goals, in other words – true **partnership**.

* * *

In conclusion, the potential benefits of capacity strengthening measures for municipal and regional administrations should not be exaggerated, in particular in the area of training and awareness. One should not forget that practice provides the best training. It would be unrealistic to expect that local government and regional administrations will be fully prepared to utilize structural funds as at the date of EU accession or the launch of operational programmes implementation. Experience in other countries has shown that at least one or most likely even two programming periods must elapse before that happens. It is therefore of utmost importance to minimize the risks associated with their capacity and to exploit their potential to effectively and efficiently use EU fund money.

¹² See Regional Development OP, priority 4.3