

The Local governments, the European funds and the financial autonomy (the case of Bulgaria 2000-2010)

The report herewith presented marks the progress of financial decentralization in the process of preparation for EU accession of Bulgaria. The transformations in this sphere are substantial. They are component of the overall process of reforms, which are in progress in Bulgaria with respect to the institutions, the harmonization of the legislation, the policymaking and the assimilation of the EU funds. The principles underlined in the European Charter of Local Self-Government serve as guiding keypoints that will safeguard the decentralisation process in Bulgaria. In this regard we will reveal the direction of the transformations, the aroused problems and resolutions for attaining a higher effectiveness in the work of the local governments, respectively a higher well-being of the local communities.

*** Profile of the regional and territorial development of Bulgaria**

Bulgaria belongs to the group of small-sized countries in the EU. With a territory of 110 thousand square kilometres and a population of approximately 8 million people. It is commensurate with Austria, Greece, Hungary, Czech Republic, Portugal and Sweden. The institutional organisation of the state government in Bulgaria is of 3 levels:

- * Central Government
- * 28 regional administrations (operating as agents of the central government in the districts of the country)
- * 264 municipalities, of which 5 big with a population of over 200 thousand residents, about 50 medium with a population of 200 thousand residents and the remaining 200 with a population under 50 thousand people.

Decentralisation is the process of transferring authority and resources from the central government to the territorial units (the local governments, municipalities). It manifests itself as political, administrative and financial decentralisation. The later is a function of the former ones: the delegation of rights and responsibilities to the local jurisdictions (municipalities) demands for financial resources to supply the public goods to the local residents.

Bulgaria has entered the phase of transition to market economy with relatively balanced territorial development. Later on, however, the market processes determined a rapid migration and concentration of the population in the more vibrant cities and regions. The residents of Sofia are now more than 1,5 million people (17-18% of the population). The 5th largest cities (Sofia, Varna, Plovdiv, Bourgas and Rouse) are now inhabited by about 3 million people or around 33% of the country's population. They attract people from many regions of the country since they secure higher work load and income, as well as a good deal more opportunities for better education and rich spiritual life. In the meantime, however, a massive depopulation of a great many territories of the country has begun, which deteriorates the conditions for their development. As a result, a wide variety of profiles of the local territorial units can be found in the country:

- A) small, medium and large villages (with respect to population and territory);
- B) highly, moderately and poorly developed rural areas and regions in terms of economic development;
- C) industrial, agricultural, touristic, semi-mountainous or multi-faceted territories;
- D) border areas, situated at the border with Greece, Turkey, Romania and Serbia.

The rich profile diversity of every particular region or rural area is a testimony to the necessity of decentralisation, in order to ensure the most adequate supply of the public goods

in each and every territorial unit in the country. In the interim, however, all the units experience problems of like nature: neglected and obsoleted infrastructure, deteriorating living conditions as a consequence of missing or poor regulations, aspiration after newly instituted groupings to acquire key economic activities in the rural areas, frequent political changes and the lack of succession in the governance of the territorial units, sharp communal problems, deteriorating quality of the environment. Due to these reasons the decentralisation policy should provide greater freedom and resources for differentiated supply of the public goods in demand of the local residents, as well as unified approach to overcome the common, similar problems of every single territorial community. On the ground of numerous deficits of resources for harmonious territorial evolution there exist several favourable factors:

In the first place, the local self-governance and democratic process of the public choice brought about the formation of groups of politicians, managers and experts with knowledge and experience in local community management;

In the second place, the transfer of knowledge and good practices in respect of local development, which the Bulgarian representatives obtained during their contacts with the European institutions and the support of the USAID program "Initiative in local self-governance"

In the third place, with experts available in the central government, which were capable of assessing the different variants of decentralisation from the point of view of the supremacy of the national interests and policies.

*** Preparation for the EU accession – critical factor in decentralising and better governance of the local areas**

In the process of transition toward market economy, Bulgaria has reserved high level of centralisation of the financial resources, intended to develop the local communities. This was achieved by means of: the system of shared taxes, under which one part of the republican taxes were devoted to the advantage of the municipalities and through allocating equalizing and special subsidies for capital projects. Through those two instruments the municipalities financed the offering of the national public goods on their territory. The municipalities had the lawful right to define the local taxes and accordingly to control them. The incomes from the local taxes and charges amounted to 30% from the total revenues for the municipal budgets, and the remainder of the resources represented state transfers (republican subsidies). This centralised model for formation and distribution of resources in the municipal budgets engender *genetic defect*: community services depend to a great degree upon the resolutions of the central government, which did not guarantee stability and effectiveness of leading the local politics. In connection to this presented were:

First of all, the vaguely delegated state activities and their inadequate financing lead to chronic deficits in the municipal budgets.

Second of all, the limited fiscal authority of the municipalities, infringed the formation of bigger local incomes;

Third of all, strong political influence in the allocation of republican subsidies for the municipalities can be found. (Some received more at the expense of others!)

The centralised and politicised model of forming the budget resources of the municipalities did not lead to effectiveness in the allocation and the horizontal equity in the consumption of public goods over the country's territory. Frequently on political grounds some municipalities did not receive sufficient resources from the central government, thus punishing the local residents for their political choice! These findings for inefficiency, as well as the preparation for EU membership (requiring the application of the European Charter of

Local Self-Government) stimulated the process of the financial decentralisation in the country.

In 2002 the government and the association of municipalities prepared and approved the Strategy for financial decentralisation and a programme for its implementation 2002-2005. In those documents a harmonised vision of the steps and the actions on extending the rights and the responsibilities of the local governments was elaborated. As a result a succession of new laws was approved, which regulated the relations between the state and the municipalities: Law on the state budget, Law for local taxes and fees, Law on municipal property, Municipal debt finance Law, Administrative and civil service Law. In their aggregate they determined a new frame of decentralisation and governance of the territorial units in the country: The concrete decisions were:

- the rights and the responsibilities to provide the public goods were clearly divided: the state commit itself to delegate to the municipalities and respectively to finance the supply of the national public goods (secondary education, social cares, cultural activities etc.). The municipalities were entrusted the authority to deal with the supply of local public goods and respectively to secure their financing through local revenues;
- expenditure standards for financing of the delegated duties to the municipalities from the state were accepted (annual expenditure in leva per pupil);
- municipalities were given more liberty to determinate the amount of the local taxes, which increase their role as a local source of income;
- municipalities were given access to bank and bond loans, which considerably widen their investment opportunities. Meanwhile, enough restrictions to the credit financing were imposed in order to prevent deficits in the local budgets and insolvency;
- a new formula for assessment of the uniform government grants was calculated, which guarantee more objectivity in the allocation of the state transfers to the municipalities;
- the finance control and audit of expended municipal budgets was reinforced;
- more-clearly defined authorities of the regional governors and regional administrations as agents of the central government in a specific region. They committed to coordinate the national policies on a local level, as well as the municipal activities, associated with the country's membership in the EU and the realisation of some inter-municipal projects.

To a certain degree, the abovementioned actions and resolutions brought about a greater financial stability and confidence in the local governments (municipalities). This was a bold step forward, for the authorities and responsibilities of the central and local government with respect to the national and local public goods were clearly determined, as well as the assurance of resources for their provision. That is why it can be accepted that *the financial decentralisation in Bulgaria pursuit to accomplish one stable municipal budget through a combination of republican subsidies and local incomes*. The approach is cautious as the Bulgarian state is under a currency board and potential deficits in the municipal budgets are considered threat to the financial stability of the country.

*** The European Funds – a new and significant financial resource for the advancement of the municipalities and the regions in Bulgaria**

With respect to the financial decentralization there is no *acquis* in the EU, which is why the decentralisation practices are quite different. However, *the Charter of regional self-government* plays the role of a guiding landmark (benchmark) for the modelling of the national policies in this field. Still with the beginning of the accession negotiations with the EU, the local authorities in Bulgaria adopted *the Charter* and the embedded within it principle

of subsidiarity as a document which to broaden the authority of the local administration. In addition to this, during the negotiation process it became clear that the municipalities turned out to be a direct beneficiary of a large portion of the financial resources of the EU for Bulgaria.

Financial support for Bulgaria from the EU: 2007-2010 (in millions of euros)

| Destinations | 2007 | 2008 | 2009 | 2010 |
|------------------------------|------|------|------|------|
| Pre-accession instruments | 330 | 490 | 620 | 500 |
| European funds | 685 | 1065 | 1780 | 2160 |
| Agriculture | 435 | 660 | 800 | 910 |
| Structural and cohesion fund | 250 | 405 | 980 | 1250 |
| Total | 1015 | 1555 | 2400 | 2670 |

Several European programmes are oriented towards the municipalities as direct beneficiaries of the European funds:

Firstly, not large parts of the pre-accession instruments were focused on the local governments (municipalities) in order to prepare the absorption of the European funds from 2007.

Secondly, in its large part the present Operational Programme 'Regional Development' (OPRD) is aimed at development of the local governments;

Thirdly, the Operational Programme Environment in its large part is aimed at realisation of municipal projects for collecting garbage and purifying stations;

Fourthly, the Operational Programme for Rural Development in its large part is directed towards the rural communities;

Fifthly, many of the measures within the Operational Programme Human Resources Development are also directed towards the municipalities;

Sixthly, the European programmes for trans-border co-operation are intended towards borderland municipalities which are over 35 in number in Bulgaria.

The EU membership ensures considerable financial resource for the municipalities in Bulgaria for harmoniously development and improvement of the quality of life of the local residents. During the negotiation process of the framework for financial support 2007-2013, Bulgaria had to work out several documents which had a direct reference towards the development of the municipalities: strategy for regional development 2007-2015 and a plan for development of the rural areas 2007-2015. That is the reason why during the period 2004-2005 the elaboration of municipal strategies for development begun on which foundation regional strategies for development and the national strategy for regional development were adopted. The perspective directions for development of the municipalities were outlined within the municipal strategies for development; the most important capital projects were identified and the financial resources for their realisation were evaluated. That enabled the municipalities to elaborate middle term investment programmes and the necessary resources for their realisation.

With a view to build up administrative capacity and to accumulate experience in the absorption of the European funds (the structural and the cohesion fund) the municipalities were admitted to participation in some of the measures of the pre-accession instruments as future beneficiaries. The results are contradictory: some municipalities achieved good results, while others failed, still third, small municipalities did not take part in the measures at all. The conclusion was absolutely unconditional: systematic efforts for building of administrative capacity are required in order for the municipal administrations to absorb successfully the European funds!

*** Financial decentralisation after the EU accession (2007)**

The decentralisation programme during the period 2002-2005 was realised to a great extent. It brought to an end questions that were discussed for a long time between the central and local authority, namely:

- Clear differentiation between rights and responsibilities with respect to the supply of public goods, including ensured financing of the activities which the central government delegates to the municipalities;
- Giving off a greater freedom of the municipalities in the assignment of the local taxes as well as in the commanding of the municipal property respecting its management and privatisation;
- Acceptance of a common indicator: average tax income of a resident in a given municipality as a base for determination of the fiscal position of the municipalities and respectively, assessment of the amount of the equalising subsidy;
- Adoption of a new and co-ordinated formula for assessment of the total amount of the government subsidies for the municipalities.

However, the analysis of the budgets of the municipalities during the period 2002-2006 shows that the share of their own incomes had increased slightly: from 32-35 to 40%. The remaining part is republican subsidies for delegated activities, for equalizing the fiscal position of the municipalities and for purposeful capital projects. This result retains the strong dependency of the municipal budgets of the central government. However, in fact, the transfer of resources was dependent on objective criteria and indicators which eliminated the political influence in defining the government subsidies. They preserve their dominant position within the incomes of the municipal budgets but became a foreseen and stable source for them. This gives reason *for a conclusion to be made that the changes in the relationships between the central government and the municipalities in the period up to 2005-2007 did not lead to decentralisation with a greater financial independence of the municipalities, but rather guaranteed stability and sustainability of the municipalities` budgets.* As a result, the municipalities improved the quality of the delegated and local public services supply to the local citizens. All things considered, this is the desired outcome of each decentralisation irrespective of the scheme of its financing.

During the period 2004-2007, the municipalities in Bulgaria improved their abilities in managing the municipalities` activities. They gained experience, introduced a good many innovations, created many good practices and achieved good results in their work. At the same time, some poor practices do exist. However, what is important is that a constructive dialogue between the central government and the municipalities in the searching of balanced and rational solutions for financial decentralisation was led. That is why, the adoption of a new, contemporary Strategy for decentralisation and programme for its implementation in the period 2006-2009 was accepted. The following measures with constructive nature embedded within it:

- Increasing of the municipalities` own incomes in their budgets in order to boost their financial independence;
- Widening of the rights and responsibilities as well as of the capacity of the municipalities to pursue independent investment policy;
- Delegation of new rights and responsibilities to the municipalities for the supply of national public goods to the local population (social services);
- Supporting the municipalities with objective structural deficit by means of giving of equalising republican subsidies.

The process of financial decentralisation in the country that has already begun has been developed further by the above mentioned measures and the consequent actions. However, two of them deserve special attention:

Firstly, increasing of the municipalities own incomes in their budgets. To this end, during 2008 a Constitutional amendment was made which gave the right of the municipalities to assess the amount of the local taxes within certain framework. For 2009 the town councils can assess tax rate from 0.2‰ to 2 ‰ on the real estates` tax base. At the same time, the real estate`s tax base had increased with 50% in order for them to get closer to their market prices. Thus, the municipalities gained an opportunity to boost their tax incomes coming from inhabited house duty with 30-40% in comparison to 2008. In addition to this, the assessment and collection of the tax on the incomes of the craftsmen (the lump sum tax) was given to the municipalities. These several measures, although quite limited and cautious, gave a greater financial independence to the municipalities.

Secondly, broadening the municipalities` capacities to pursue independent investment policy. Bulgaria was awaiting the EU funds in order to commence the realisation of many capital projects in the municipalities. The access to them is now available and it depends on the municipalities whether they will successfully absorb millions of euros through the numerous measures of the operational programmes (for urban development, for purifying stations, for dung-hills, development of the rural areas). To this end, good planning of the activities, preparation of the technical assignment of the projects and preparation of documents for participation in the auction procedures, signing of effective execution contracts, including the provision of precise monitoring over the spending of the granted resources and implementation of the project within the contractual dates and so forth is required. In connection to this, the building of capacity for planning and management of the investment process is becoming of paramount importance.

Co-financing amounting to 25% is exacted for the financing of the municipalities` projects with resources from the European regional development fund. This expenditure can be difficult to provide for the greater part of the municipalities in the country. A possible financing by means of borrowed resources (from banks and contractual loans) solves the problem but raise another one: incurring of debt and the payment of interests. These are the reasons why the government made a guarantee fund for financing the municipalities. It gives interest-free credits amounting to 25% of the project`s value of the capital objects financed through the EU programmes. By this means, one of the restrictions before the absorption of the European funds is overcome.

In the midst of economic growth during the period 2003-2008 the municipalities` budgets had been increasing through their own incomes as well as through government grants. However, the economic crisis altered this tendency. The municipalities ascertain a heavy decrease in their tax incomes from real estate transactions as well as from some fees. This imposed that effective and middle-term measures should be taken in order for the budget`s stability and expenditures for financing the local public goods to be guaranteed. The first measure in this direction was the rise of the tax evaluation of the properties with 50% which under the same tax rates ensures certain increase of the budget`s incomes. The state guarantees the subsidies for the delegated activities of the municipalities as well as of the equalising subsidies aimed at municipalities with lower tax capacity. The question of the subsidies with capital characteristic remains. In Bulgaria`s case, it can be solved by means of the European funds. That is why, the municipalities during the period after 2007 have alternative source of financing of the capital projects. The escalation of the incomes of local taxes and fees remains within the realm of their responsibilities as well as the imposing of the national tax on the land (which is still not exacted in Bulgaria!). *This means that the municipalities can guarantee the stability of their budgets through adequate tax efforts.*

*** New roles and functions in the governance of the local municipalities**

Bulgaria`s EU membership exacts the implementation of the principles indicated in the European Charter of Local Self-Government. In accordance with it, the central government in Bulgaria begin to concede more rights and responsibilities to the municipalities, including more financial resources. The financial decentralisation, however, is a change, which exceeds the narrow boundaries of the paradigm:”more income – more spending”. This demand for one *broader conception of the municipality governance*: from annual budget balancing to *midterm policy for harmonious and sustainable development of the local municipalities*. Then and then only will the municipalities be able to transform into an attractive place to live for the people, as they need work, good incomes, cosy living environment, fascinating spiritual life, in a word: everything, which better their sense of well-being.

Every change, however, exact *a vision, strategy for development and midterm plans for action*. Four-annual political cycle of the local self governance is not a stumbling-block in this respect. How do we envisage the future of the municipality in 15 years` time? What are the strategic directions for development of the local economy and territory? What indicators will the local economy reach after 4-5 years? What kind of projects is essential to be realised, in order to better the living conditions of the local residents? The answer to these questions can be found in the municipalities` vision and strategy for future development. Here is one parallel between the adopted midterm approaches (vision) to the development of one Bulgarian and one European municipality:

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| <i>Municipality of Pleven, plan for development 2006-2010</i> | <i>Chester-le-street District Council, Great Britain Local Development Framework 2005-2008</i> |
| Recognition of the municipality of Pleven as one of the economic centres in the North central region through realisation of the available potential for a rapid economic growth and the municipality`s transformation into an attractive location for national and foreign investments Source: www.pleven.bg | Our vision, goals, values and priorities 2005-2008: to work as "One team", so as to meet the demands of our local residents Source: www.chester-le-street.gov.uk |

Every vision and strategy seeks to meet certain goals, the formulation of which is a consequence of the definite socio-economic conditions of development. The municipality of Pleven (along with scores of others in Bulgaria) focuses the accelerated economic development as a medium to improve the life of the local citizens. The vision of the municipality of Chester is to deal with the problems of the local development with the efforts of the local residents, businessmen, NGOs, minority representatives.(partnership approach)

The fourth amendment to the Constitution of the Republic of Bulgaria gave municipalities the right to determine *the amount of the local taxes*. This, although limited taxation freedom, generates competition among the municipalities. This, however, comes with no guarantees that the municipalities with low local taxes are sure to attract seed capitals for development and citizens to take up residence there. Numerous other circumstances are required in this direction: the municipality have to provide assistance to the business` investments, existence of skilled labour, good communication, attractive environment etc. Many municipalities already engage in incentives to assist the construction of business parks, industrial zones, logistical centres, holiday villages and some other projects. The advantages are long-term, for the employment and the incomes of the local citizens are on the uptake, as well as the revenues from local taxes and fees for the municipal budget.

- * 28 regional administrations which are agents of the central government and which are coordinating and monitoring the actions of the state in regional scale.
- * 264 municipalities which are local executive bodies with elective city council and mayor.

This model does not correspond exactly to the European concept of 3 levels of government because the second one is not elective. Despite some genetic imperfections the institutional system of government in Bulgaria is functioning fairly well. For this reason, the approach towards the decentralisation in the country is pragmatic: it is pursuing rather improvement of the mechanisms of interaction between the administrative levels than its more radical reshaping and optimisation. This question has been postponed in time with the view of a new decision around the year 2012-2013, when the new seven-year financial framework of the EU will be in the making.

2. The discussion about the decentralisation process in Bulgaria is proceeding since the beginning of the transition to market economy.(1990) However, practical actions in this line had started in the beginning of the 2000, when Bulgaria opened the negotiations for EU membership. With reference to this, *the European charter of regional self-government* became a guiding document for the fiscal decentralisation process modelling in Bulgaria. In 2002, a Financial Decentralisation Strategy (conception) and a programme for its implementation 2002-2005 were adopted. By means of subsequent measures the following more significant questions were resolved:

- A clear differentiation between the rights and responsibilities of the central and local authorities regarding the supply of the public goods within the territory of a particular municipality. The central government authorises the local governments (the municipalities) to provide for the public goods with region in their consumption (education, public healthcare, cultural activities, social services), as well as the respective financial resources for their supply through republican (government) subsidies
- More financial independence was given to local authorities on the formation of their own revenues (by means of the right to form the amount of the local charges and to obtain outside financing for capital projects (bank loans and municipal bonds).
- More impartial and objective mechanism was adopted for the formation of the equalising subsidies aimed at economically weaker municipalities and for important capital projects.
- The rights and the responsibilities of the regional governor in the coordination and control of the conduction of the national politics in the regions with several municipalities were defined.

3. The changes in the relations between the central government and the municipalities during the period till 2005-2006 did not bring about to decentralisation with greater financial independence of the municipalities but rather guaranteed for the stability and sustainability of the municipalities` budgets. The republican subsidies maintain their place and role as a main source of income of the local budgets (on the average 60% of the revenues in the municipal budgets). The average share of their own incomes has been increased with only several points: from 32-35 up to about 40%. The reason for this centralised and cautious approach was the real danger of substantial budget deficits of the municipalities which could threaten the financial stability of the country (which is in state of a currency board that does not permit a deficit budget.)

4. In the process of negotiating the EU membership the municipalities and the districts in Bulgaria prepared Communal and regional strategies for development. These documents, as an integral part of the Regional plan for the development of the country in the period 2007-2013, enabled the determination of the programs and the measures to finance the municipalities as direct beneficiaries of European funds. For this period municipalities are envisaged to obtain 1.8 billion euro (25% of the full financial help for Bulgaria) in 5 key spheres of: urban restoration and development, local transport connections, sustainable environmental development, and of realization of cross-municipal projects. However, in order to obtain this money a co-financing to the amount of 25% is needed in the first instance, with which the real amount of the potential investments reach the volume of 2 billion euro. The effective absorption of this amount guarantees a large scale modernization of the capital assets and the quality of the public goods at territorial level.
5. After the successful implementation of the first programme aimed at financial decentralisation, a new one was approved, a modernised Strategy for decentralisation and a programme for its implementation for the period 2006-2009. A few measures with improved character underlie in it, two of which warrant greater consideration:
 - an increase in the amount of municipal`s own incomes in the municipal budgets by means of conceding the municipalities the authority (through an amendment to the Constitution) to decide on the amount of the local taxes within fixed boundaries of the taxation rates. (inhabited house duty)
 - strengthening the capacity of municipalities to conduct an independent investment policy with a view to absorb the available European funds along the lines of several operative programmes. With regard to this, the government has constituted a guarantee fund, which grants interest-free loans available for municipalities against 25% financial share in the investment projects, which are financed by the EU Funds.
6. The Economic crisis of 2008-2009, which is not so strong in Bulgaria, imposed the development of measures, which aimed to guarantee the stability and sustainability of the municipal budgets. The decision-making process is mitigated by the formula for calculating the republican subsidies, for through them about 60% of the revenues in the local budgets is ensured. Meanwhile, the municipalities are forced to exert greater tax efforts, including raising the tax rates, in order to secure additional income in their budgets. With regard to this, the EU funds are regarded as indispensable source of financing for the capital projects of the municipalities. That is why they execute exceptionally important compensating and anti-crisis role in the local government development. In fact , they act as a built in stabiliser of the regional and local development.
7. The early experience with the pre-accession funds, as well as the Structural and Cohesion Fund after 2007 reveal inadequate municipal capacity to develop and manage European projects, as well as to fulfil public-private partnerships. Most likely, this deduction is equally valid for municipalities in the other new EU member states. Subsequently it is probable that many municipalities, especially the small ones, do not succeed to get sufficient local benefits from the European funds. This problem calls for definite national and European efforts and measures.
8. The financial decentralisation is a transformation, which goes beyond the narrow sense of the paradigm: "more incomes – more expenses" of the municipality budgets. This demands for one *richer conception of governance in municipalities*: from annual balancing of the budget toward the adopting of *a mid-term policy of harmonious and sustainable*

development of the local community. This forces the local governments to build in the principles for good governance in their work: legitimacy, transparency, openness, honesty, partnership with the local social groups, effectiveness, efficacy, accountability, day care for the good quality of life for the local citizens. Those principles are required to become a standard of behaviour in every local government (municipality). Only then would the municipalities be able to ensure greater satisfaction and a growing sense of well-being of the local citizens. The countries of Eastern Europe have a considerable amount of good examples in this respect, pulled out of the practice of the municipalities in the EU member states. Once again the question of how to transfer the good practices in the government of the local communities has been put forward.

9. For a period of 7-8 years, which was imperatively prompted by the European integration process of Bulgaria, consecutive and methodical changes in the mechanism of financing the local governments have been accomplished. They do not bring about a substantial rise in the financial independence of the local governments, but they do guarantee stability and sustainability in their budgets. This change enhances the competences of the local governments in the country to formulate effective policies and to improve the living conditions of the local citizens. A significant role in producing this results play:
 - the decision to declare greater independence of the local governments in the formation of the local taxes and fees;
 - the formation of politically neutral mechanism for financing a delegated national public goods of the local governments through public subsidies. This has allowed the public subsidies to transform in the period of 2006-2009 into built in stabiliser of the municipal budgets, guaranteeing unified national public goods consumption by the local community;
 - following the Bulgarian EU integration, the European funds transformed, through different operative programmes, into a second, built in stabiliser of the municipal budgets and the local economic and social development.

10. Through a succession of European instruments (city fraternization for instance and still other incentives offered by the Committee of the Regions) a transfer of know-how between the European cities and the local governments do exist. Under the circumstances of the new challenges (effective use of the European funds for improving the quality of life of the local communities, the assurance of greater financial independence of the local governments and the application of the principles of the good governance in the municipal level), create the need of evaluation of the existing mechanisms for collaboration and transfer of knowledge and good practices in the EU. This question is of great importance for the newly accepted countries. In relation to this, the eventual elaboration of a white paper for the new solutions and opportunities for improvement of the life of the local communities will provide a good basis for the elaboration and implementation of more effective methods for absorption of the European funds. Bulgaria, as well as probably the other countries, found new and effective solutions to some problems, the introduction with which may increase the effectiveness of regional and other EU policies.