

# **THE CAPITAL OF BULGARIA – SOFIA, AS A CITY AND A MUNICIPALITY – CHALLENGES, OPPORTUNITIES AND POLICIES FOR FUTURE DEVELOPMENT**

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## **Abstract**

The positive trends of the economic growth recorded in Bulgaria after 1997 are a result of the macroeconomic policy, as well as the ability of particular regions to use the potential of their own territorial capital. Data show that the main engines for such development are the cities and mostly the large ones. As a capital city, municipality and district, Sofia is the most dynamic and highly developed area of the country. In the light of this the objective of the paper is to determine whether and how the accountable authorities have formulated and implemented specific priorities and policies, aimed at overcoming the obstacles for city's development and future sustainable growth. The research is based on surveys of National documents and strategies; Municipal development plan of the capital city in the period 2007-2013 and Strategy for regional development of Sofia district for the period 2005-2015; municipal budget revenues and expenditures as instruments for implementing Sofia development goals; capital city's participation in European Union Structural and Cohesion funds absorption. In addition data, collected by the National Statistic Institute of Bulgaria and information, submitted to author's disposal by interviews and conversations with municipal officials is included.

The main findings of the survey accomplished are as follows:

- Sofia has dominant contribution to the National gross domestic product. In addition capital city is the most attractive place in Bulgaria for foreign investments. Nowadays in the city of Sofia the biggest size of average annual salary is achieved and the unemployment rate is three times lower than the rest of the country. The capital city has the highest labor productivity (twice higher than the large city areas, and four times higher than the medium-size city areas). One of the major advantages of Sofia is also the high educational structure of the population;
- Despite of that, Sofia still suffer a number of deficits and there are a lot of obstacles to its future development - the disbalances between the center and the periphery of the city; the quality of residential areas, particularly the ones with panel block apartments; the condition of technical infrastructure networks; the state of the public buildings for culture, education, healthcare; the condition of the established green systems; the increased usage of automobiles, which causes traffic jams and has harmful environmental impact; the problem with waste management activities.

All the above mentioned advantages and obstacles in the development of Sofia as a city, municipality, district and capital of Bulgaria are taken into account in the municipal development plan and district strategy, in which the accountable authorities set up the vision, priorities and strategic goals to be achieved in the next years. The activities envisaged generate the necessity of internal, but also of additional external financial resources. The increased level of Sofia municipal budget and the active participation in EU Structural and Cohesion Funds absorption in the last 2 years resulted in bigger possibilities for investments in technical and social infrastructure. As a conclusion, analyses of the municipal budget and project proposals, developed by local authorities reveal that there are coincidences between the priorities and goals, set for the future development of Sofia in the municipal plan and district strategy, and their implementation in reality.

## **1. Main characteristics of Sofia as a city and municipality**

### **1.1. Positive trends in the capital city development**

According to article 8 of the Local Self-Government Act (LsGA, 1991), Sofia, as a capital city and a municipality, is an administrative and territorial unit with status of district (oblast). It combines the self-government of the community with the implementation of government policies for the development of the capital city. The management of Sofia as a district is conducted by district governor<sup>2</sup>.

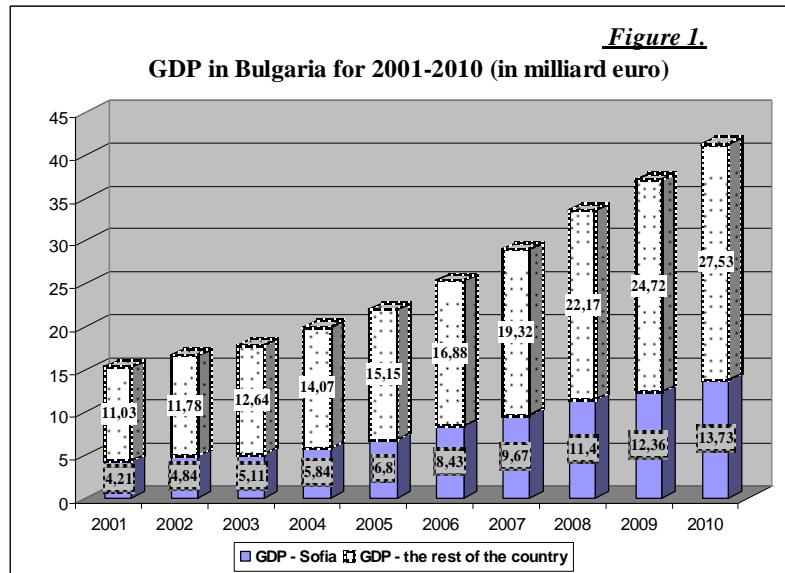
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<sup>2</sup> The district governor in Bulgaria is appointed by the Council of Ministers and he/she is a representative of the national government. Governor's functions are: implementation of the state policy, protection of the national interests, ensuring compliance with law and the social order, and exertion of administrative control over the territory of the district - art. 142-143, *Constitution of the Republic of Bulgaria*, adopted in 1991.

Today the population of Sofia is 1 million and 240 thousand people<sup>3</sup>. The territory of the district of Sofia is identical to the territory of Sofia municipality. It includes the areas of 4 towns (Sofia, Bankya, Novi Iskyr, and Buhovo), 34 villages, 24 administrative and territorial subdistricts (rayoni) and 34 mayor-led councils.

Like in all new Member States and Croatia, and in a number of the EU-15 Member States, a substantial share of Bulgarian economic activity is concentrated in the capital region. Despite the unequal progress in economic performance across different sectors, growth prospects are encouraging. Sofia continues to maintain a dominant position in the national economy. The city has less than 1% of the national territory, but is home to 16 % of the Bulgarian population and to 730 000 of its labor force<sup>4</sup>.



The capital city is the most dynamic and highly developed area of the country with dominant contribution to the gross domestic product (GDP). In 2008 on the territory of the Sofia municipality is realized the highest size of GDP in Bulgaria – 11,4 milliard euro. In the last eight years the size of this indicator in the capital city is characterized by stable growth rate – from 27,6% in 2001 to 30,9% in 2005 and 34% of the national GDP in 2008 (Figure 1<sup>5</sup>). The level of economic development, measured by the indicator GDP per capita, demonstrates significant disparities between the municipality (and the district of Sofia) and the other part of the country – 9 200 Euro in 2008, in comparison with 4 855 average level for Bulgaria<sup>6</sup>. According to this indicator Sofia, as a city, municipality and a district has the leading role among the other 27 districts in the country.

Since 1990 two major structural changes have transpired in Sofia's economy: first, a shift away from industry and manufacturing production to services, and second, a shift from public sector production to private sector activities. The reorientation from an industrial to a service-oriented economy was largely a result of unmet demand for services that were, under the centrally planned economy, not a priority. During the socialist era, emphasis was instead on manufacturing for export markets within the Former Soviet Union and Sofia's economy incidentally followed a more rigorous industrialized pattern than most other Central and Eastern European cities. The extent of Sofia's de-industrialization process might be revealed by the following numbers: although manufacturing remains an important source of income, employment in this sector<sup>7</sup> declined from 44% of total employment in 1990 to 26% in 2000 and 25% in 2008; concurrently, employment in service sectors increased from 56% of total employment to 74% in 2008. Key service sectors (Figure 2.<sup>8</sup>) are trade, retail and repair, transport and communication, real estate and construction, which according to the information, given by the municipal authorities are the sectors with highest growth for the last five years.

<sup>3</sup> Data, based on the calculations of the National Statistical Institute of Bulgaria in 2008, [www.nsi.bg](http://www.nsi.bg).

<sup>4</sup> Municipal development plan of Sofia for the period 2007-2013. 2006. Sofia. Also available online at [www.sofia.bg](http://www.sofia.bg).

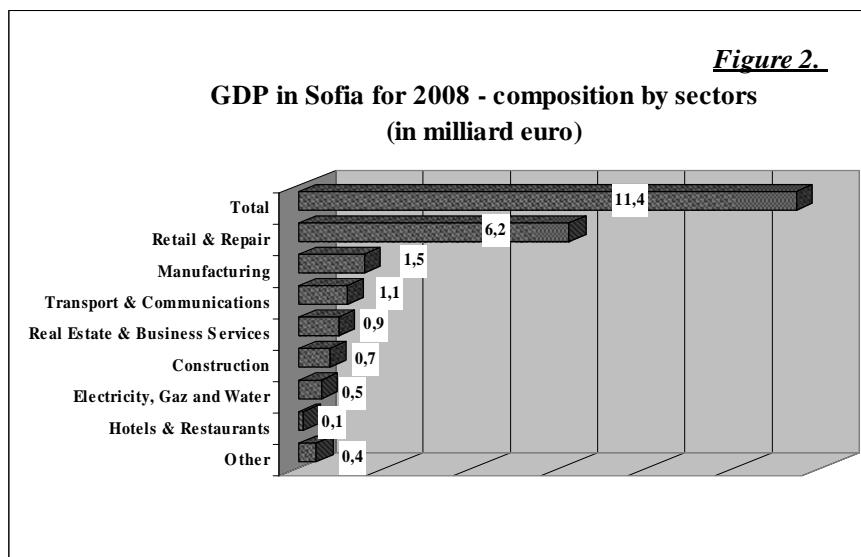
<sup>5</sup> Data, based on information, published by the National Statistical Institute of Bulgaria, [www.nsi.bg](http://www.nsi.bg).

<sup>6</sup> ibid.

<sup>7</sup> Data on 'manufacturing' refer to industrial employment, mining and construction.

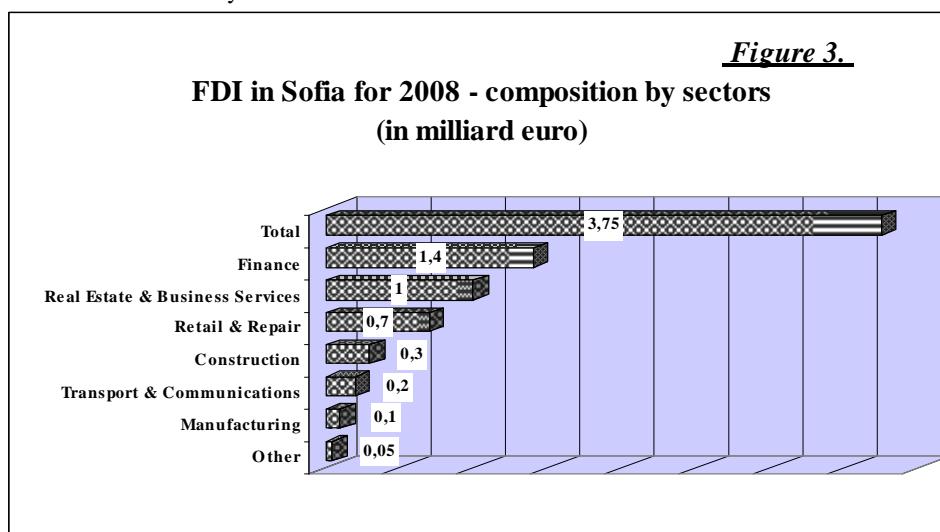
<sup>8</sup> Gerdjikov, M. 2009. *Investment Opportunities in Sofia*. Sofia: Municipal Report.

The municipality functions, connected with government in the city of Sofia are the main factor for the development of the service sector, typical with the presence of huge number of legislative, executive and juridical authorities, of financial-credit and business sector. The city remains the dominant financial, insurance and banking center of the country. The growth in business services in Sofia is associated with nationally significant export and import activities, increasing real estate transactions and the presence of major domestic and international company headquarters.



The second major structural shift from public to private sector activities resulted from an aggressive privatization process and the rapid development of small and medium-size enterprises (SMEs). The private sector in Sofia today provides about 60 percent of jobs, compared to 6 percent in 1990 and generates 94% from all services. Firm privatization policies implemented in the mid to late 1990s led to the emergence of new private sector businesses and, as a result, Sofia's private sector consists of a number of formerly public – and now private – companies and of SMEs that account for 95 percent of the total number of firms today<sup>9</sup>.

Sofia municipality is the most attractive place in Bulgaria for foreign investments. Bulgaria's capital city had attracted 69.4% of the country's total amount of foreign direct investments (FDI) in 2008 or 3.75 milliard euro of the 5,4 milliard euro invested in the country<sup>10</sup>. The capital attracts foreign investors with its favorable geographic location, the lower salaries in comparison to those in Central Europe, and the high number of young people who graduate from universities each year.



<sup>9</sup> Data, based on the calculations of the National Statistical Institute of Bulgaria, [www.nsi.bg](http://www.nsi.bg).

<sup>10</sup> Gerdjikov, M. 2009. *Investment Opportunities in Sofia*. Sofia: Municipal Report.

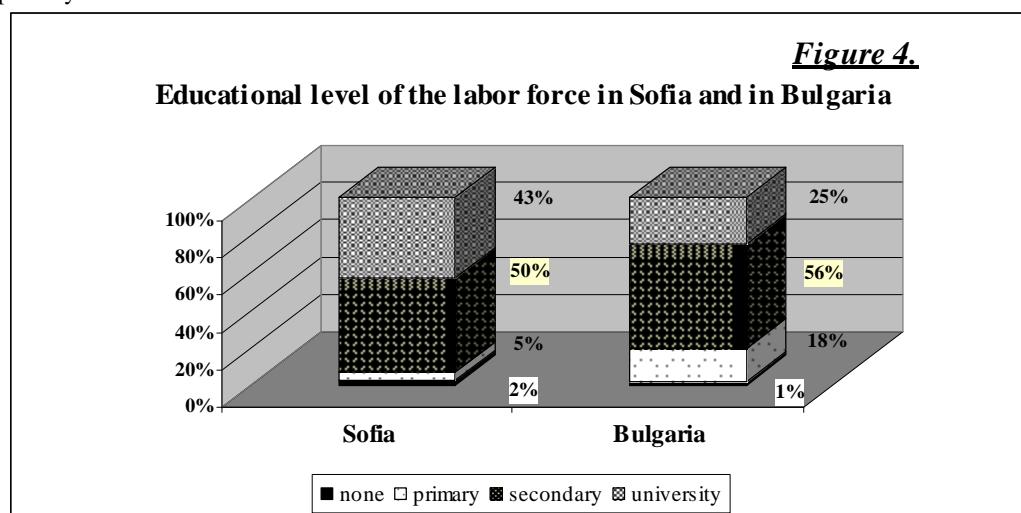
Increased levels of FDI signal an improved city economy. Sectors that benefited most from FDI (*Figure 3.<sup>11</sup>*) are finance (37%), real estate and business services (27 %) and retail and repair (19 %). Sustained high levels of investment till 2008 are due to the large-scale privatization effort in telecommunications, gas and electricity supply industries. The accession of Bulgaria to the European Union also fostered a relatively favorable investment climate in the capital city.

As a city, municipality and district Sofia has the highest labor productivity (twice higher than the large city areas, and four times higher than the medium-size city areas)<sup>12</sup>.

Nowadays in the city of Sofia is achieved the biggest size of average annual salary – 4050 euro in comparison with 3060 euro average annual salary for the rest of the country. There are over 730 000 employed persons in Sofia and the registered unemployment in the city is the lowest in Bulgaria – 1.3% compared to 6.31% average size for Bulgaria<sup>13</sup>.

The city's greatest asset is its well educated labor force. The competitiveness of Sofia's economy is determined to a large extent by the skills of its workforce and the city's ability to attract new businesses as well as to nurture existing ones. Sofia has a tradition of excellence in education and research. In the capital are located 20 of 42 Universities in Bulgaria, which reflects on the number of faculties (12 800) and the number of students (93 000). In addition Sofia is a center, not only of academic, but also of applied researches with the 58 institutes and laboratories, which are part of the Bulgarian Academy of Sciences. The share of people with university education in the capital city is almost two times the national average; the share of people with specialized secondary education is also considerably higher. The employed people with university education in Sofia are 43% (in comparison with 25% average for the rest of the country); the employed with secondary and primary education are 50% and 5% compared to respectively 56% and 18% average for Bulgaria (*Figure 4.<sup>14</sup>*).

Analyses indicate that the level of education is a significant factor that affects economic activity in the labor market – economic activity is as high as 72.7% for those with university degree and as low as 23.6% for people with primary or lower education<sup>15</sup>.



Despite the high levels of educational attainment and progress in recent decades, there are still gaps with European Union (EU) countries. The general conclusion of the World Bank's report is that the educational level of the population (even in Sofia) is not sufficient for the need of the labor market and the economic development of the country, especially among young people and that there is serious number of early school drop-outs. The

<sup>11</sup> ibid.

<sup>12</sup> Operational program “Regional development” for the period 2007-2013. 2007. Sofia. Also available online at <http://www.bgregio.eu/>

<sup>13</sup> Data, based on the labor market analysis, prepared by the National Employment Agency, <http://www.az.government.bg/internal.asp?CatID=25/01&WA=Summaries.asp>

<sup>14</sup> Gerdjikov, M. 2009. *Investment Opportunities in Sofia*. Sofia: Municipal Report.

<sup>15</sup> Strategy for regional development of Sofia district for the period 2005-2015. 2004. Sofia. Also available online at <http://www.sf.government.bg>

educational system does not demonstrate adequate flexibility with respect to the existing capacity to meet the requirements of the market-based economy and the knowledge-based economy<sup>16</sup>.

In the future, the survival and growth of many businesses will depend on the supply of knowledge workers – people with good education and ability to learn new skills. Sofia can capitalize on its human capital, which can become a major source of indigenous economic growth.

### ***1.2. Main challenges and obstacles for the future development of Sofia***

Capital city plays an important role in Bulgarian economy and its highly educated and relatively low wage labor force represents an enormous opportunity for growth for the entire country. However, due to the city's historical legacy, and the challenges of its economic and social transition, a number of constraints affect its ability to become an effective springboard for economic growth. The main obstacles<sup>17</sup> might be generalized to the following:

- Weakness in the development of the city is the disbalance of the center development and the periphery of Sofia. The intra-municipal differences are greater and the “center-periphery” problem is imminently present in the capital city. The beneficiaries from the positive changes in the last years are multi-functional zones in the center of the city, on whose area there is high concentration of educational and R&D centers, highly skilled human resources, relatively good infrastructure networks and well-developed institutions of the business environment, which make up the potential bases for more efficient regional development than in the rest of the municipality. Particularly affected are border areas, rural areas and the areas of industrial decline. These areas need a certain amount of assistance on the part of the state and municipality, focused above all on creation of conditions for launching a sustainable process of structural reconstruction and diminishing of the existing social problems and unemployment;
- The sprawling of Sofia (due to the massive construction, which is insufficiently controlled) is related to the need of additional resources (water, energy, urban spatial planning, etc.), the exploitation of which damages the environment and leads to a greater environmental pressure (pollution, waste, soil contamination, corrosion) within the urban area and the outskirts. Agglomeration areas have been developing around capital city, but the massive construction is insufficiently controlled. Large residential areas have been built, yet presently not integrated into the structures of the traditional communities (some of them are not entirely constructed and lack public utilities). The quality of residential areas, particularly the ones with panel block apartments is a major problem. Almost two-thirds of Sofia's residents live in panel housing. This pattern of development was the flagship of socialist housing policies. Built by state enterprises and allocated in accordance with socialist principles of housing need, the stock has poor quality and low energy efficiency. A major constraint to the redevelopment of these areas is the extremely high level of private ownership<sup>18</sup> leaving little flexibility for the public sector to influence. The improvement of these areas needs to be encouraged. Henceforth, a continuous process of restructuring and modernization of the residential quarters and sanitation of the panel buildings is forthcoming. This requires timely and careful direction of policies, in order to preserve enough spaces for public functions and greening;
- The condition of technical infrastructure networks does not meet adequately the urban needs and obstructs the proper functioning of the capital city. Despite the high degree of construction of the water supply systems and sewerage networks, which cover respectively 100% and 93,3%<sup>19</sup> of the population in Sofia, the majority of them (more than 88%) have been constructed in the period 1960-1980 using asbestoscement and steel pipes. This feature makes the water supply systems obsolete from technological point of view and physically gravely depreciated, leading to high rate of breakdowns, low performance efficiency and high rate of losses;
- The condition of the presently existing industrial zones is unfavorable for the future development of Sofia. The industrial zones cover 14% of the overall city territory. Restructuring, privatization and liquidation processes of state-owned companies after 1990 led to the uncertain status and ownership of the industrial zones. For this reason part of the infrastructure has been despoiled, demolished, neglected, not maintained and amortized.

<sup>16</sup> World Bank. 2006. *Bulgaria – Education and Skills for the Knowledge Economy*. A policy note. Also available online at [http://siteresources.worldbank.org/INTBULGARIA/Resources/EducationPolicyNote\\_EN.pdf](http://siteresources.worldbank.org/INTBULGARIA/Resources/EducationPolicyNote_EN.pdf)

<sup>17</sup> These obstacles are based both on conversations and interviews with municipal experts in the period February-March, 2009 and on municipal analyses, available at <http://www.sofia.bg>.

<sup>18</sup> Close to 87% of the housing stock in Sofia is privately owned.

<sup>19</sup> Data, based on the analysis of the territorial socio-economic complex development of Sofia municipality, *Municipal Development Plan for the period 2007-2013*. 2006. Sofia. Also available online at [www.sofia.bg](http://www.sofia.bg).

The buildings of bankrupt enterprises are worn-out and unattractive and could be hardly modernized and used<sup>20</sup>. The newly established industrial zones as well as the existing ones face the problem of the insufficient infrastructure (road and railways connections, energy supply – electricity, gas, water supply, sewerage, telecommunications, etc).;

- The state of repair of the public buildings for culture, education, health care is lamentable. Unfinished construction of cultural facilities (museums, libraries, scientific centers) in the Sofia is a grave problem for the municipality who fail to expose and present the cultural assets properly. Possibilities should be sought for completion of unfinished municipal sites in line with the current needs of Sofia. The majority of the school buildings and schoolyards are in urgent need of rehabilitation because of their poor physical condition due to the very low level of maintenance expenditures (both municipal and state).
- The condition of the established green systems in Sofia with minor exceptions is unsatisfactory. The public green areas are limited, badly maintained and subject to serious aggression. The need for extending the green areas in the capital city and its surroundings is evident. Despite this growing need, destruction of green areas has been witnessed because of improper construction activities;
- The continuous urbanization process leads to growth of urban travels and brings serious problems to the capital city like increased usage of automobiles; decreased demand of urban public transport, and lower standard of provided transport services; increased necessities of state/municipal subsidies; traffic jams and harmful environmental impact. In the first years of democratic changes, Sofia municipality did not manage to maintain its public transport properly. The rolling stock was old and uncomfortable; the vehicles ran at very long intervals. These inconveniences repelled many passengers in the early 1990s. In addition, most routes of public transport have not been changed for many years and do not correspond to the growth of individual parts of the city. But the biggest problem of all is that public transport is at the mercy of traffic jams, which cause vehicles to run behind schedule at rush hours and makes public transport even less reliable and less attractive. Hence, more and more people prefer to drive their own automobiles, which makes traffic even more unmanageable. Now, in 2009, Sofia has almost 1.5 million inhabitants and faces grave transport problems because there are more than 800 000 automobiles in the capital<sup>21</sup>. In addition like Stanilov underlines Sofia is not the only city that is facing increasing car traffic and congestion. The number of cars in Europe has risen by 50 % over the last 20 years. Sofia is a leader in this respect, as the number of cars in the capital has risen over three times in less than 20 years: from 250,000 in 1989 to 800,000 in 2005. Currently Sofia ranks fourth among the European capitals in terms of cars per capita. The city ranks higher than Paris, London, Vienna or Budapest<sup>22</sup>. Development of sustainable urban transport systems, friendly to the environment is of significant importance. This requires that Sofia municipality should aim to increase the number of passengers using trolley, tram and underground transport with 30% until 2013 and should also design programs for construction of cycling lanes, bicycle parking lots, etc. This could become possible only if public transport and inter-model systems are well developed, effective and attractive.
- By law, Sofia municipality is in charge of solving the city's waste management problem, which has been persistent for the past years. Through this period the municipal authorities have taken a series of short-term decisions to cope with the municipal waste problem—a problem that came to light in 2005, when residents of Suhodol, an outlying area of Sofia that held the Bulgarian capital's primary landfill, began protesting against the pollution and odour caused by the waste disposal site. When the landfill was closed and there was no other landfill on the territory of Sofia and in the region a short-term solution was found, and the methodology of solid waste baling was introduced. For three years already, baled waste has been waiting on the temporary refuse holding-platforms in 2 villages near by the capital. There are about 500 000 tons of bales that are starting to disintegrate, being broken down by time and weather. The bales had an expiry date of three years date set on them by the Bulgarian Ministry of Environment and Water Affairs. The European Union also has set a deadline for Sofia municipality to solve its waste management problems, by moving and making safe the baled waste. Nowadays balling the household solid waste has stopped and another short term decision was taken - the landfill in Suhodol, prematurely closed has been temporary reopened and extended according to the regulation of the waste directives, within national and European standards. It is obvious that great efforts (and financial resources) are needed for

<sup>20</sup> Institute for Public-Private Partnership. 2005. Preliminary definition of priorities and measures of the Operational Program "Regional Development". Sofia.

<sup>21</sup> According to forecast in the Sofia urban plan this number of automobiles was expected in year 2020.

<sup>22</sup> Stanilov, K. 2006. *Sofia's Thomy Road to Europe*. Capital newspaper. Sofia. Also available online at <http://www.capital.bg/weekly/06-09/12-09.htm>

solving the problems with waste management activities in the capital city, this time permanently and with a project for a whole integrated waste management system.

As a conclusion of the theme for the main characteristics of Sofia, it can be summarized that the capital city (being at the same time a municipality and a district) has a big potential, it is attractive for the investors and the population, but the unsatisfactory condition of physical environment and public works in Sofia might restrict its future development.

## 2. Opportunities and policies for future development

All the above mentioned advantages and obstacles in the development of Sofia as a city, municipality, district and capital of Bulgaria are taken into account in the municipal development plan of Sofia for the period 2007-2013. The formulation of the vision, goals, priority axes and the operations of this plan is based on: the social-economic analysis of the municipality; the perspectives of the Bulgarian membership in the European Union; in the methodological directions for elaboration of municipal development plans, conformable to the Regional Development Act and also to the relations of the municipal plan with the other strategic and program documents from the upper levels for planning<sup>23</sup>.

The main goal of these documents is to define Community priorities for the cohesion policy and to gear synergies for implementing the renewed Lisbon strategy<sup>24</sup>. Three main guidelines are formulated for the period 2007-2013, on which the strategy and actions envisaged in the Bulgarian plans and programs should be built upon:

- increasing the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies;
- creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

Following the orientation given by the Community Strategic Guidelines on Cohesion 2007-2013, the overall logic of intervention of municipal plans, district strategies, regional plans and national strategy for regional development aims to stimulate growth potential, so as to achieve and maintain high growth rates, including addressing the deficits in basic infrastructure networks and strengthening capacity at local and regional level. Account is also taken of the specific role of urban areas for<sup>25</sup>:

- promotion of cities as motors of regional development (with actions related to improvements in competitiveness);
- promotion of internal cohesion inside the urban areas that seek to improve the situation of districts (with actions related to rehabilitation of the physical environment);
- promotion of a more balanced development by improving the urban network, including links between the economically strongest cities and other urban areas (with actions targeted at networks in both physical terms – infrastructure, information technologies etc. and human terms – actions to promote cooperation etc.).

The ambition of the authorities, responsible for the development of Sofia as a municipality and district (the mayor, municipal council, district governor and both municipal and district administration) to solve the problems of the city on one hand, and the membership of Bulgaria in the European Union, requiring compliance with the Community priorities on the other hand, are consolidated into a following vision for the city<sup>26</sup>:

*City-region with an important role in the spatial structure of the EU, with balanced and sustainable development, with a unique identity and harmonious social and economic environment; city-region with attractive conditions for business, living and recreation, with new in its character economy, with effective government and executive power, which provide growth of the living standard of the population.*

<sup>23</sup> Strategy for regional development of Sofia district for the period 2005-2015; Regional plan for development of Southwestern planning region (2007-2013); Operational Program “Regional Development” (2007-2013); National Regional Development Strategy (2005-2015); The national Plan for development; National program for reforms (2007-2013); National Strategic Reference Framework (2007-2013).

<sup>24</sup> Commission of the European Communities. 2005. *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013*. Brussels. Available also online at [http://ec.europa.eu/regional\\_policy/sources/docoffic/2007/osc/050706osc\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf).

<sup>25</sup> Operational program “Regional development” for the period 2007-2013. 2007. Sofia. Also available online at <http://www.bgregio.eu/>.

<sup>26</sup> Strategy for regional development of Sofia district for the period 2005-2015. 2004. Sofia, available online at <http://www.sf.government.bg>. Municipal Development Plan for the period 2007-2013. 2006. Sofia, available online at [www.sofia.bg](http://www.sofia.bg).

According both to Municipal development plan and District Strategy of Sofia this vision might be turned into a reality through 3 main strategic goals<sup>27</sup>:

- Accelerated and sustainable economic growth and development of the economy based on knowledge and informational society for reaching the average levels of development, typical for similar administrative-territorial units in EU;
- Balanced and sustainable development, based on the local potential;
- Development of the European territorial cooperation and positioning of Sofia in the network of the big cities as an important center on the Balkans and Southeastern Europe.

The first goal might be described as a goal of the growth and sustainability, in the foundation of which is the increase of economic competitiveness in the framework of European regions. This might be achieved by creating conditions for fast adoption of innovations; transfer, creation and implementation of high technologies; increase of the educational characteristics and professional structure of the labor force, according to the contemporary labor market; development and increase of the quality of the infrastructure, as a base for the business and the functional systems living, labor and recreation; development of other activities, influencing the investment and business initiatives in all spheres of the economy – city marketing and effective work and potential of the municipal administration.

Strategic goal 2 “Balanced and sustainable development, based on the local potential” is in relation with the attempt for overcoming the weaknesses in the development of the city – the disbalance of the center development and the periphery of Sofia. The achievement of the second strategic goal might be fulfilled through using the potential of the round city zone and establishment of equal to the center of the city conditions for living, service delivering, recreation and business, as it is the situation in other similar cities in Europe.

Third strategic goal “Development of the European territorial cooperation and positioning of Sofia in the network of the big cities” is connected with the complex development of the functional system – business zones, living areas, labor, recreation and services. Positioning Sofia city in the polycentric system of the big cities depends on the qualities of the environment, transport system, efficiency of the government and the living standard of the population.

The significance of the actions envisaged in the municipal plan and district strategy and the attainment of the goals require considerable financial resources. The funds for financing strategic goals implementation, aimed at better development of Sofia, are:

- The budget of Sofia municipality and the State budget;
- EU funds: for the period 2007-2013 from the Structure Funds and the Cohesion Fund through the National Operational Programs;
- International sources of financing;
- Other (credits, in-kind contribution – real estates).

In the last two paragraphs of the paper municipal budget and project proposals, developed by local authorities are analyzed. The aim of both analyses is to compare are there coincidences between the priorities and goals, set for the future development of Sofia in the municipal plan and district strategy, and their implementation in reality, or in other words: do the accountable authorities succeed to follow all the activities envisaged.

### **3. Municipal budget as an instrument for implementing Sofia development goals**

One of the biggest challenges in the world economy at the end of this century is the transition of the former socialist economies to relations based on the free market enterprise. Bulgaria joined the process in the beginning of 1991 but changes started under extremely difficult conditions.

Undoubtedly, the way to achieve macroeconomic equilibrium goes through the development and implementation of a large-scale economic reform program. The success of the program depends on many factors; yet it is most closely associated with a financial policy based on government decentralization and creation of actual prerequisites for efficient local government, as local governments are the mainstay of any democratic society<sup>28</sup>.

The European Local Self-Government Charter signed in Strasbourg on 15 October 1987 is effective in Bulgaria since 1 September 1995. According to art. 9, paragraph 1 “Local authorities shall be entitled, within national

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<sup>27</sup> ibid.

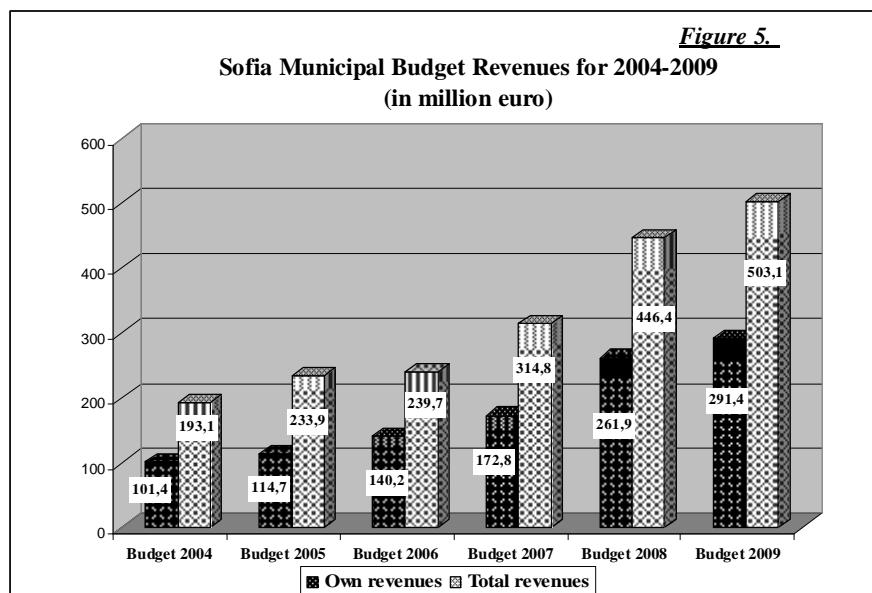
<sup>28</sup> Local government initiative (LGI). 1999. *Definition of the existing distribution of responsibilities for service provision on various government levels*. Sofia. Resources and products. Also available as a CD-ROM.

economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.”

The transformation of Bulgarian municipalities into effective local self-government bodies depends on their ability to dispose of sufficient financial resources needed for the performance of their functions and assignments and to enjoy fiscal autonomy guaranteed by law. The Municipal Budgets Act (1998) settles the autonomy of local budgets and defines the main principles of interrelations with central government.

Not only independence of the municipality is guaranteed by the existence of its budget, because every municipal budget is basis of implementation of the activities, goals, priorities and development policies, set up by local authorities. The following short analysis of Sofia municipal budget reveals the possibilities for solving problems and realization of the priorities, set up in the municipal development plan and district strategy of the capital city.

An examination of Sofia’s revenues reveals that both own revenues (tax and non-tax revenues) and transfers from central government have increased in line with the economic recovery and growth in the country (Figure 5<sup>29</sup>). Municipal revenues account between 48% (the lowest level in 2005) and 58,5% (in 2008) of the total revenues.



The municipal budget of capital city is balanced and the level of expenditures depends of the real revenues. The total increase in revenues (from 101,4 in 2004 to 503,1 million euro in 2009) should reflect in proportional increasing in financing all local activities. By law all municipalities in Bulgaria, including capital city, spent the financial resources of their budgets for<sup>30</sup>:

- Collection and treatment of household waste;
- Urban development construction and maintenance of streets, squares, parks, gardens, street lights;
- Operation of public transport on the territory of municipality;
- General and detailed town plans. The municipality adopts specific strategies and plans concerning the development of its territory, complying with its specific environmental, historic, social and other needs.
- Maintenance and further development of local sports, tourist and other recreational facilities;
- Municipal schools - grammar, primary, and secondary schools (including remuneration and social security payments of the respective staff), municipal hospitals and social institutions, social services centers, cultural, historical, and architectural monuments of municipal importance;
- Municipal kindergartens;
- Municipal theatres, orchestras, museums and their art collections, libraries, etc.;
- Management of municipal property for the benefit of the citizens and management of municipal companies and enterprises.

The quality and quantity of all these public services depends on the amount of the revenues and on the priorities of municipal authorities. The growth of the financial resources in Sofia (Figure 5) is due to the reform of local

<sup>29</sup> Source: Explanatory note to Sofia municipal budget. 2009. Available online at [www.sofia.bg](http://www.sofia.bg).

<sup>30</sup> Art. 17, Local Self-Government Act.1991

finance management as part of broader social changes implemented throughout the country since 2001. The period 1990-2001 can be characterized by the perseverance of a highly centralized system and by the absence of a sensible dialogue between local and central authorities. The end of 2001 marked the start of intergovernmental cooperation geared toward implementing fiscal decentralization principles by redefining the regulatory framework of municipal-State financial relations. Both the Fiscal Decentralization Concept and the Program for its Implementation were adopted in the middle of 2002. As a result, the reform of local finances allowed for a new Local Charges and Fees Act, which delegated full powers to municipalities to determine the basis and rates of local fees. Five years later the fourth amendment to the Constitution of the Republic of Bulgaria ratified on February 6, 2007 introduced changes in municipal charges – since 2008 powers to local authorities are delegated to determine the rates of the charges.

For the purposes of this paper it is important also the trends in municipal expenditures to be presented in order to reveal how the increased budget revenues in the last three years are utilized by the Sofia authorities.

Practice in Bulgarian municipal budgets is the division of municipal expenditures both by functions and into the following categories:

- Current (for salaries, social insurance, materials, fuel, energy, etc.) and
- Capital expenditures.

Second division allows analysis on the municipal opportunities for investments in basic and social infrastructure – two of the main Sofia obstacles for future development.

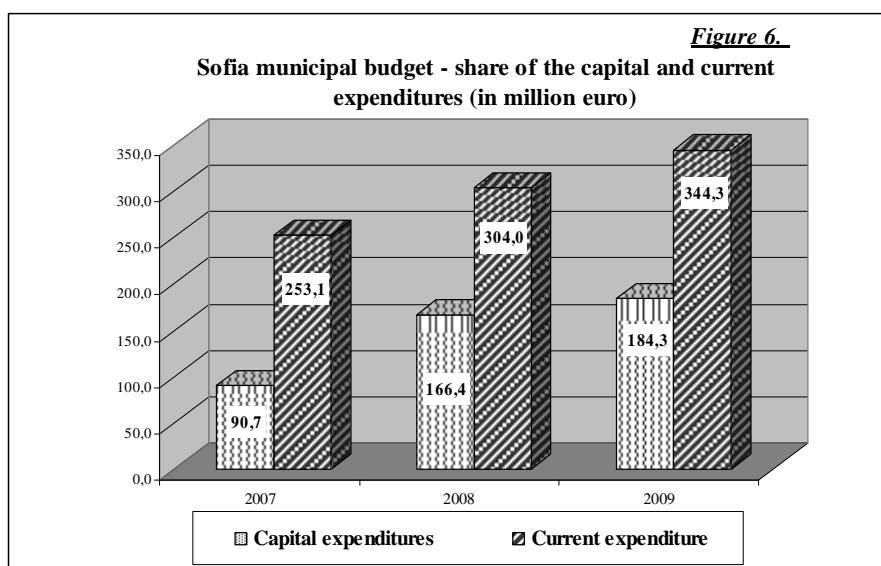


Figure 6<sup>31</sup> reveals increase in both capital and current expenditures in Sofia municipal budget. The share of second type expenditures decreases, while the share of the first type grows from 27% in 2007 to 37% in 2009 in the total budget of the capital city (90,7 million euro in 2007 compared to 184,3 million euro in 2009). All this reflects on improved possibilities for delivering public services and investments.

A detailed examination on the municipal explanatory notes to the Sofia budget for 2007, 2008 and 2009 reveals the following positive trends<sup>32</sup>:

- To help fight the enormous traffic jams in the city, Sofia municipality has budgeted 11 million euro to be spent on improving traffic lights and road signs in 2009. This also includes spending on street lighting. In 2007 and 2008, the city spent respectively 8.5 and 9 million euro on these activities.
- The amount the city plans to spend on its water supply and sewerage systems has been also increased to 12,9 million euro in 2009. In 2007 and 2008 respectively 0,8 and 1,8 million euro were spent in this area;
- The amount to be spent on education is 15 530 350 euro or 10,6% of the total budget for capital expenditures in 2009. The financial resources are provided for reconstruction, refurbishment and equipment of educational institutions – pre-school facilities, primary and secondary schools and for construction of 11

<sup>31</sup> Data based on the explanatory notes of Sofia local authorities to the municipal budgets in 2007, 2008 and 2009, [www.sofia.bg](http://www.sofia.bg).  
<sup>32</sup> ibid.

kindergartens in the capital city. In 2007 the amount for educational investments had been considerably smaller: 3,5 million euro;

- The budget for management of the waste activities in 2009 is 13,4 million euro, or 9,1% of the total budget for capital expenditures. There are no financial resources for that kind of activities in the previous budgets;
- The amount budgeted to be spent on street repairs and maintenance was also increased, from an actual expenditure of 14,8 million euro in 2007 to 18,5 million euro in 2008 and to 20,3 million euro in 2009 . The plan to build more bicycle lanes will be funded from 2009 budget;
- The main priority for reducing traffic congestion in Sofia in the last years has been the completion of the Metropolitan. The amount budgeted to be spent on extension of its construction in 2009 is 69,1 million euro (24,5 of which – loan from the Japanese Bank for International Cooperation and 22,5 million euro loan from European Investment Bank). In 2007 and 2008 the amount was respectively 49,6 million euro and 89,3 million euro. According to municipal officials development of public rail transport for passengers in the capital city by the extension of the metropolitan network will enable new railway connections with key transport centers of national importance and other public transport modes. The project of extension of Sofia Metro can be used as the backbone to develop several intermodal nodes in Sofia's public transport system. Some of them, such as the Central Railways Station or the Sofia Terminal Airport Station, will have a strategic importance in the development of the public transport. All these activities will be an opportunity for solving the severe problems with traffic jams and pollution in the capital city.

The structure of capital expenditures demonstrates that the major part of municipal investments is dedicated to public works, utilities and environment (about 70%). The share of expenditures for education increases, whereas the share of the expenditures for healthcare decreases (one of the reasons being the cancellation of financing for municipal hospitals from the local budgets). The share of investments in transport and communications is also higher (6-10%). The conclusions about Sofia municipal budget analysis might be summarized as follows:

- the financial resources of Sofia municipality are increasing and therefore its authorities success to carry out investments, which are necessary for the city development;
- both increased municipal expenditures and the way expenditures are allocated, demonstrate that local authorities consider priorities and goals, set for the future development of Sofia in the municipal plan and district strategy.

#### **4. Municipality participation in European Union Structural and Cohesion funds absorption**

Bulgarian municipal authorities may play an important role in making the decisions about the absorption of the EU structural funds, because their functions practically cover all the areas that are eligible for financing from the structural funds. The financial resources from European Union are allocated through the Operational programs, prepared in accordance with the regulations of Community Strategic Guidelines on Cohesion 2007-2013<sup>33</sup>. The absorption of the money requires project development and implementation.

In the final part of the paper Sofia's participation in EU Structural and Cohesion funds absorption for 2008-2009 is presented, thus revealing the opportunities for providing additional financial resources for solving capital city's problems. In fact municipal administration has been very active and in 2008 and there are 32 developed and approved projects. Each of these projects has to follow the priorities of the municipal plan and district strategy, but also is connected with the priority axes of the Operational Programs. Priority is given to projects in the framework of Operational program "Transport", "Environment", "Regional development", "Administrative capacity", "Human Resources Development" (Figure 7). For 2008 they are as follows<sup>34</sup>:

##### ***4.1. Six developed and approved project proposals<sup>35</sup> within the Operational program "Environment" (OPE), aimed at:***

- Improvement and development of water and wastewater infrastructure in settlements within urban agglomeration areas (priority axis 1 of OPE) - Bulgaria have to comply with the requirements of Council Directive 91/271/EEC on urban waste water treatment by December 31, 2010 for all agglomerations with a population equivalent above 10 000. In respect with this the authorities of Sofia municipality have developed in

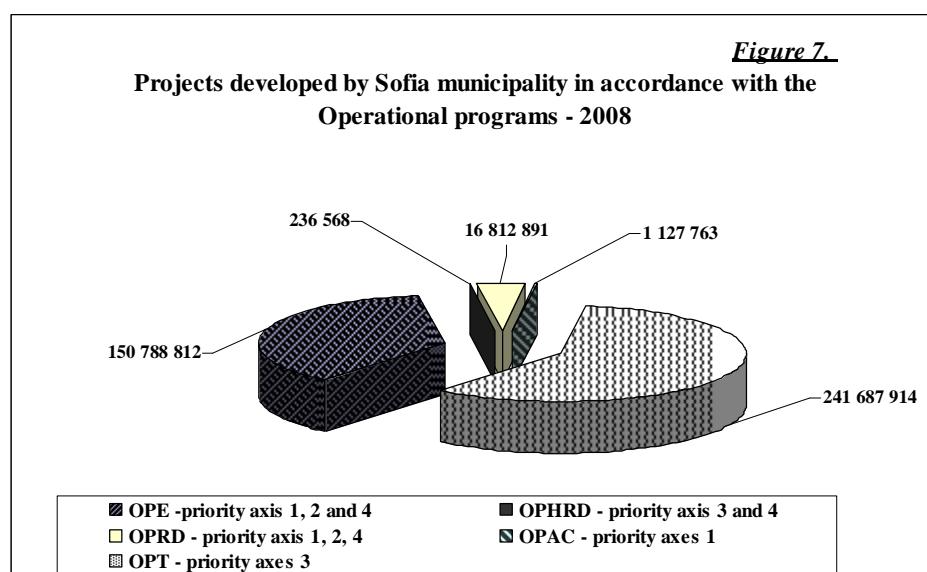
<sup>33</sup> For the period 2007-2013 and within the 7-th operational programs more than 8 milliard euro are allocated for Bulgaria.

<sup>34</sup> Author's research, based on data and information, collected in the period February-March 2009 by interviews of municipal experts in "European Integration" Directorate, Sofia municipality.

<sup>35</sup> The amount of the developed by Sofia municipality in the framework of OPE projects is 150 788 812 euro and actually represents 16,7% of the total amount of the Operational program, which is 1 800 748 085 euro for the whole territory of Bulgaria.

2008 three projects for extension, reconstruction and modernization, as well as construction of new sewerage systems in 5 of the 24-th subdistricts (rayons) in Sofia. The total amount of these projects is 6 918 257 euro;

- Improvement and development of waste treatment infrastructure (priority axis 2 of OPE) – one of the projects, elaborated by the capital city's authorities is staged decommissioning, consequent rehabilitation and closure of the existing municipal landfill in Dolni Bogorov, which do not comply with the requirements of the legislation and the modern technical standards. The realization of the second project will solve one of the most severe municipal problems – waste management, and is aimed at construction and exploration of system for ecological treatment of the waste, generated on the territory of Sofia municipality. A new project for a whole integrated waste management system has been started jointly with the EU and a one-year analysis of the morphology and the quantity of the generated waste was carried out. The total amount of the two projects is 128 223 915 euro.
- Technical assistance<sup>36</sup> (priority axis 4 of OPE) - in 2008 Sofia municipality has elaborated one project within the framework of priority axis 4: "Preparation of investment project for decommissioning and rehabilitation of landfill in Dolni Bogorov", which amounts to 15 626 640 euro.



#### ***4.2. Seven developed and approved projects<sup>37</sup> within the Operational program “Human Resources Development” (OPHRD) in compliance with:***

- Improving the quality of education and training in correspondence with the labor market needs for building knowledge-based economy (priority axis 3 of OPHRD). There are 3 elaborated by Sofia municipality projects in the framework of this priority axes and they are related to creation of appropriate social and economic environment and stimulation of the development of new forms of commitment of the young people by activities for expansion of the out-of-class and out-of-school forms of education and by construction of Web centers for students – two of them in a secondary schools and the other – in the National palace of children in Sofia. The main goal of these projects is increasing suitability for employment by supporting qualitative education and training for developing of high qualified labor force that is competitive to the labor market in Bulgaria and EU.
- Better access and integration to education and training (priority axis 4 of OPHRD). This priority axis aims at improvement of the conditions for insurance of equal access to education and training for different target groups. Four of the developed by Sofia municipality projects are in the sphere of integration of children and students from ethnic minority groups and extension of opportunities for acquiring a different educational and qualification levels.

<sup>36</sup> Technical assistance provides support for the program management, implementation, monitoring, control, and evaluation as well as for publicity measures, program promotion and exchange of experience.

<sup>37</sup> The amount of the developed by Sofia municipality projects is 236 568 euro (0,4% of the total amount of the Operational program, which for the whole territory of Bulgaria for 2008 amounts 54 922 705 euro).

#### **4.3. Sixteen developed and approved projects<sup>38</sup> within the operational program “Regional Development” (OPRD), aimed at:**

- Sustainable and integrated urban development (priority axis 1 of OPRD) - the amount of elaborated by Sofia municipality and approved projects within priority axes 1 of OPRD is 17 582 406 euro in 2008. Priority has been given to reconstruction, refurbishment and equipment of educational institutions – pre-school facilities, primary and secondary schools (5 projects, some of which envisage energy efficiency measures and access facilities to public institutions mentioned above for disabled people). Second part of the projects, developed by the local authorities in 2008 is in relation with development of cultural infrastructure through reconstruction, refurbishment and equipment of cultural centers, theatres, concert halls, community centers ('chitalishe'), libraries, and other facilities related to cultural life (5 projects). One project has been developed in the sphere of rehabilitation and establishment, regeneration and creation of public recreation areas, e.g. parks, children playgrounds and rehabilitation, reconstruction of sub-passages for pedestrians and cyclists on the territory of 6 subdistricts (rayons) of Sofia municipality.
- Regional and local accessibility (priority axis 2 of OPRD) - In 2008 Sofia municipality has elaborated 1 project aimed at reconstruction of municipal roads within urban agglomeration area and better integration and accessibility of the territories surrounding the urban center in two subdistricts of Sofia municipality (the amount of the project is 1 474 699 euro). This project corresponds to all strategic goals, set up in the municipal plan and Sofia district strategy, because it enhances the quality of living and working environment with better access and new opportunities for increased regional competitiveness and sustainable development, which might be achieved through developing infrastructure related to transport, communication, information and gas networks enhancement.
- Local development and co-operation (priority axis 4 of OPRD). Within the framework of priority axes 4 of OPRD in 2008 Sofia municipality has elaborated 4 projects. All of them are projects of a cooperative nature involving Bulgarian and other EU partners, mainly based on past experiences and thematic interests in order to share and transfer information, knowledge and best practices. The projects are in the sphere of tourism strategies, introduction of electronic health cards on the territory of capital city, e-government and planning and rehabilitation of city subdistricts. Partners are Athens, region of Lombardia, Bilbao municipality and Helzinki.

#### **4.4. Two developed and approved projects<sup>39</sup> within the operational program “Administrative Capacity” (OPAC) in accordance with priority axis 1 “Good governance”**

The first project, elaborated in 2008 aims at improving accountability of the administration in 3 Bulgarian municipalities (Sofia, Pleven and Sliven) through ensuring clear and accessible information to citizens and business for the results of the functioning of the administration, thus providing transparent governance in favor of the civil society.

The second project is with relation to creation of modern and integrated administrative service delivery in both the administration of Sofia municipality and the district of Sofia for increasing the citizens' satisfaction and ensuring qualitative services.

#### **4.5. One developed and approved project within the operational program “Transport” (OPT)**

In 2008 Sofia municipality has developed one project in compliance with priority axes 3 of OPT “Improvement of intermodality for passengers and freight”. The objective of this project is making traveling conditions easier and facilitating modal transfers of passengers and freights to more environment friendly transport modes, which in fact is one of the main city problems and at the same time priority in both municipal development plan and district strategy. The amount of the project is 241 687 914 euros (12 % of the OPT's amount, which for the whole territory of Bulgaria for 2007-2013 is 2 003 481 166 euros). The project favors a major modal shift from private cars to rail transport through the extension of the Metro and creates new intermodal connections for passengers in the public transport system of Sofia. Within the framework of this project a construction of three new connections and metro stations is envisaged.

Forecasts suggest that the Metropolitan should absorb mostly the passengers for bus services and individual users. As a whole, the predominant impact of this operation on the modal share of urban transport should be a substantial

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<sup>38</sup> The amount of the Sofia municipality projects in the framework of Operational program “Regional development” is 16 812 891 euro, or 11,6% of the program amount, which for the whole territory of Bulgaria in 2008 is 144 902 458 euros.

<sup>39</sup> The amount of the projects is 1 127 763 euros and it represents 5,8 % of the total amount of the Operational program, which in 2008 for the whole territory of the country is 19 247 006 euros.

increase of the passenger flows from 75 000 passengers /day to 580 000 passengers /day at completion of the sections and of the suggested metro extensions<sup>40</sup>.

According to information, submitted by “European integration” Directorate in Sofia municipality the efforts for absorption of the opportunities and financial resources of Structural and Cohesion funds continues in 2009. Till the beginning of April 2009 there are ten developed project proposals, amounting to 33 209 434 euro. Priority is given to projects in the framework of Operational program “Environment”, Operational program “Regional development” and Operational program “Administrative capacity”.

There are 3 projects elaborated in the framework of OPE and all of them are aimed at solving one of the biggest municipal problems: extension, reconstruction and modernization, as well as construction of new water and sewerage systems. The projects will ensure improved water and sewerage infrastructure in 4 of the 24-th subdistricts (rayons) in Sofia.

Two of the prepared by Sofia municipality proposal are in relation to Operational program “Regional development”. The first of them amounts to 6 444 755 euro and is in the sphere of rehabilitation and establishment, regeneration and creation of public recreation areas, e.g. parks, children playgrounds and rehabilitation, reconstruction of sub-passages for pedestrians and cyclists on the territory of 7 subdistricts of Sofia municipality. The second project, for which 450 000 are envisaged, corresponds to small scale infrastructure measures for prevention against landslides in one subdistrict of the capital city, thus ensuring the improvement of physical environment and risk prevention.

The last 5 project proposals of Sofia municipality for 2009 are in the framework of Operational program “Administrative capacity”. Each of them is in relation to improvement of administrative service delivery, introduction of modern management methods in the administration, applied and proven in the private sector and development of e-government. The realization of the projects is connected with cooperation and partnership between district, municipal and 8 subdistrict administrations, functioning on the territory of capital city Sofia. The municipal authorities’ goal is not just making service delivery more accessible to the citizens and businesses by providing different services on-line, but to make service delivery to the customers more effective and efficient by unification of different types of mechanisms and methods for providing administrative services.

## Conclusion

In the renewed cohesion policy for 2007-2013, cities play a key role since they are crucial in shaping the European economy. As Prof. Hübner, Commissioner in charge of Regional Policy, underlines “...cities and urban areas are home to most jobs, businesses and higher education institutions. They have been and they will be the engines for regional, national and European economic growth. On the other hand, many cities are confronted with severe problems. The battle for sustainable development will almost certainly be decided in cities”<sup>41</sup>.

In light of the above and of the renewed Lisbon strategy for growth and jobs, programs, developed by European Union member states and cofinanced through the cohesion policy should seek to target resources on the following three priorities<sup>42</sup>:

- encouraging innovation, entrepreneurship and growth of the knowledge economy;
- creating more and better jobs;
- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential.

Being a member state since January 2007 Republic of Bulgaria has to follow the orientations given by the Community Strategic Guidelines for Cohesion Policy 2007-2013 and like other countries Bulgarian authorities took account in the documents and projects developed in the last three years of the specific role of urban areas for<sup>43</sup>: promotion of cities as motors of regional development (with actions related to improvements in competitiveness); promotion of internal cohesion inside the urban areas (with actions related to rehabilitation of the physical environment); promotion of a more balanced development by improving the urban network (with

<sup>40</sup> Operational program “Transport” for the period 2007-2013. 2007. Sofia. Also available online at <http://www.optransport.bg/>

<sup>41</sup> Hübner, D. 2007. *Keeping cities in good shape*. Leipzig. Opening address at the Informal Ministerial Meeting on Urban Development. Also available online at [http://ec.europa.eu/commission\\_barroso/hubner/speeches/pdf/24052007\\_urbanopening.pdf](http://ec.europa.eu/commission_barroso/hubner/speeches/pdf/24052007_urbanopening.pdf)

<sup>42</sup> Commission of the European Communities. 2005. *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013*. Brussels. Available also online at [http://ec.europa.eu/regional\\_policy/sources/docoffic/2007/osc/050706osc\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf).

<sup>43</sup> Operational program “Regional development” for the period 2007-2013. 2007. Sofia. Also available online at <http://www.bgregio.eu/>.

actions targeted at networks in both physical terms – infrastructure, information technologies etc. and human terms – actions to promote cooperation etc.).

Sofia, as a capital city, municipality and district is the most dynamic and highly developed area of the country with dominant contribution to the GDP. Despite of that there are a lot of obstacles to its future development. The research reveals that the advantages and disadvantages of Sofia are taken into account, while the accountable authorities defined the priorities, strategic goals and vision for the city's development in the next years. All activities envisaged in the documents are in compliance both with the national priorities and with Community Strategic Guidelines for Cohesion Policy 2007-2013. Analyses of the municipal budget and project proposals, developed by local authorities reveal that there are coincidences between the priorities and goals, set for the future development of Sofia in the municipal plan and district strategy, and their implementation in reality. The increased level of Sofia municipal budget and the active participation in EU Structural and Cohesion Funds in the last 2 years absorption resulted in bigger possibilities for investments in technical and social infrastructure. Financial resources are allocated for solving two of the main cities problems – the construction of Metropolitan and improvement and development of waste treatment infrastructure. In case these positive trends continue in future we, the citizens of Sofia will live, study and work in a city with balanced and sustainable development, with unique identity and harmonious social and economic environment; city-region with attractive conditions for business, living and recreation, with new in its character economy, with effective government and executive power, which provide growth of the living standard of the population.

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