



LOCAL SELF-GOVERNMENT: FINANCIAL AUTONOMY AND LOCAL DEMOCRACY

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ABSTRACT

The aim of the study is to assess local self-government in Bulgaria, using financial indicators for fiscal independence of municipalities and the level of local democracy, and on this basis to formulate recommendations. Methods: The study used both general and specific scientific methods such as analysis, synthesis, induction, deduction, expert assessment method, and survey. Results: In Bulgaria a significant part of local budgets are still highly dependent on state transfers from the central budget, and the level of local democracy is low. Conclusions: The imbalance in this area affects the entire system of functioning of society and interferes with normal relations between local authorities and the local community. The lack of understanding of the need for local democracy, both on the part of local authorities and the central government, creates conditions for the implementation of ineffective and inefficient municipal policies for the provision of local services.

Key words: local government, budget, decentralization, financial independence, local democracy

INTRODUCTION

The recent history of Bulgaria bears the imprint of principles such as democracy and the rule of law. They are enshrined in the 1991 Constitution and later became the basis for the country's membership in the European Union. Along with these principles, the European Community recognizes another one - that of local self-government. It is fundamental to the democratic construct of the state, since it is through it that citizens are given the opportunity to participate in the governance processes: self-government. This can be achieved through a process called decentralization; a process that transfers rights and obligations from the central to the local government. In order to carry out its functions, local government is granted administrative and financial powers that give a certain degree of autonomy to municipalities in their work for the benefit of the local community. The author's analysis seeks an answer to the question of whether and to what extent reforms at the local level have affected the achievement of the Constitution's stated

goal of a "united state with local self-government". The results derived from the analysis and assessments serve as a basis for identifying obstacles and formulating proposals for institutional, managerial and territorial changes in the relations between central and local authorities.

The object of the study is the municipalities in Bulgaria. The subject is the municipal budgets, which reflect the financial relations between the central and local authorities, between local authorities and the population.

In connection with the presented goal, object and subject of the study, the author sets himself a number of tasks. The hypothesis supported by the author is that a large part of the problems in the public sphere in Bulgaria can be resolved by implementing a consistent decentralization policy.

METHODS

The present study uses the tools of inductive and deductive methods. The data collected in the process of work from the regulatory framework are analyzed qualitatively through content analysis.

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RESULTS

The genesis of every state lies in the awareness of different groups of people of their belonging to a community, i.e. the existence of a center that unites them. This is precisely the meaning of centralization – it unites the diverse interests, views, beliefs of individual citizens. Centralization is necessary to guarantee common security in critical moments, and is the basis on which public relations are built in peacetime.

Centralization is a process in which power is concentrated from the many to the few, precisely in order to achieve the set common goals. Of course, this carries a risk of unscrupulous exploitation of the empowered individuals/groups of people.

In order to minimize this risk, and to guarantee the democratic nature of a government, there is also the opposite concept of “decentralization”. Scientists from the University of Cambridge define decentralization as the process of transferring power from one center to several smaller ones (1). The definition proposed by the Britannica Dictionary sounds similar, implying the taking of power from one person or group of people and granting it to a wider circle of people in a certain area (2). Local self-government, as mentioned earlier, is the state that is aimed at being achieved through the process of decentralization. There are different theories about what leads to the emergence of local self-government in a historical perspective. What they have in common is that local self-government arises as a completely natural state of social relations.

The European Charter gives the following definition of local self-government: “the right and the real possibility of local authorities to regulate and effectively manage (within the

framework of the law), under their responsibility and in the interests of their population, a substantial part of public affairs”. From this definition, the two mandatory characteristics that local self-government must possess can be deduced:

- A real possibility to take decisions on a substantial part of the public services provided by the municipalities, and
- These decisions must be in the interests of the local population.

The next part of the analysis examines another aspect of local self-government, namely – local democracy. The latter means that all activities of local government are aimed at satisfying the needs of the local community.

The most appropriate way to ensure the effectiveness of local self-government is precisely the citizens, for whom it exists. Citizens are the ones who must have the tools to exercise control over local government; there must be developed local democracy. This implies that the local community is aware of its corrective role and is actively part of social processes (4).

The existence of financial independence in an environment lacking civic self-awareness creates the prerequisites for corruption and authoritarian governance at the local level. Therefore, it is necessary to assess the degree of decentralization both at the level of financial indicators and from the point of view of the stat

1) Share of local expenditures in all public expenditures – this indicator measures what part of public expenditures is spent on expenditures in the field of local self-government. However, the indicator does not provide an answer to the extent to which these expenditures are covered by local revenue sources and what part is from the central state budget of local democracy.

Table 1. Share of local spending in all public spending for 2022

Country/region	Share of local spending in total public spending
Malta	1%
Greece	7%
Germany	18%
Bulgaria	18%
France	19%
Romania	22%
EU 27	22%
Croatia	26%
Denmark	67%

Source: Eurostat,

https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp__custom_14020635/default/table?lang=en

Table 1 shows that there is a wide range of the indicator “share of local expenditure in total public expenditure” within European countries. Malta has the lowest value of this indicator, which can be explained by its small territory and the limited possibility of establishing large independent local authorities. The values in Bulgaria are the same as those in Germany and France, and are slightly below the EU average. The leader in this indicator is Denmark, which

is distinguished by a high degree of decentralization in general.

2) Share of local revenues in GDP – the indicator measures the “weight” of local revenues in the economy of the country as a whole. The more local revenues a given local authority has, the more significant a role the municipality in question plays in public relations.

Table 2. Share of local revenues in GDP for 2022

Region/country	Share of local revenues in GDP
Malta	0,4%
Bulgaria	7,5%
Germany	8,8%
EU 27	10,9%
France	11,1%
Croatia	12,5%
Netherlands	12,8%
Denmark	30,0%

Source: Eurostat,

https://ec.europa.eu/eurostat/databrowser/view/GOV_10A_MAIN__custom_14305901/default/table?lang=en

3) Share of local taxes in all tax revenues of the state – this indicator measures what part of taxes goes to local budgets. What is not clear from the indicator, however, is whether and what part of

these revenues remain for spending by municipalities at their discretion, i.e. whether they are their own source of revenue.

Table 3. Share of local taxes in all state tax revenues for 2022

Region/country	Share of local taxes in all state tax revenues for 2022.
Estonia	0,6%
Bulgaria	2,6%
Romania	2,8%
Germany	8,2%
EU 27	10,2%
France	13,6%
Sweden	28,6%

Source: European Commission, https://taxation-customs.ec.europa.eu/taxation/economic-analysis/data-taxation-trends_en#summary-tables-by-country

Table 3 illustrates a similar ranking of countries compared to the previous indicators. Countries such as Bulgaria and Romania have generated between 2-3% of their tax revenues through local taxes and fees – far below the EU average. Sweden tops the ranking, thanks to the link between local revenues and the income of residents in a given municipality.

4) Share of local expenditure by function in all public expenditure by function – this indicator aims to present the financial burden borne by municipalities in relation to the various expenditure by function.

Table 4. Share of local expenditures by function in all public expenditures by function for 2022

Country/region	EU 27	Bulgaria	Denmark	Germany	Greece	France	Croatia	Malta
General government	27%	17%	27%	24%	11%	33%	22%	5%
Defense	0%	5%	1%	0%	0%	0%	0%	0%
Public order and security	17%	1%	7%	20%	1%	20%	8%	1%
Economic activities	26%	7%	33%	23%	12%	32%	22%	0%
Environmental protection	71%	80%	57%	55%	75%	84%	35%	10%
Housing and urban planning policy	46%	92%	59%	63%	86%	78%	38%	0%
Healthcare	23%	12%	97%	3%	0%	1%	36%	0%
Entertainment, culture and religion	55%	50%	45%	43%	54%	73%	51%	1%
Education	37%	67%	47%	34%	5%	29%	77%	0%
Social security and assisted living	12%	7%	86%	14%	0%	9%	5%	0%

Source: Eurostat,

https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp_custom_14020786/default/table?lang=en

From the data presented in **Table 4**, it could be concluded that the Security sector is categorically the financial and political responsibility of the central government and, accordingly, of the central state budget of the EU member states. Regarding the Security sector, in Bulgaria the expenses are made almost entirely by the central government, with the share of local expenses under this function being only 1%, while the average European level is 17%. The value of the indicator is identical in Greece and Malta. Another sector – Activities in the field of economy, reveals a similar trend, as far as Bulgaria's positioning is concerned. With an average European level of 26% of local expenses under this function, the Bulgarian local government has a contribution of only 7%. Countries like Denmark report shares in the various indicators many times higher than countries like Bulgaria. For example, the Health Care and Social Security

and Assistance sectors in Denmark are financed almost entirely through local structures, and a very small part of the expenses are covered at the central level. This is a direct consequence of the overall decentralization policy in the Nordic country.

There are also statistics prepared by the European Committee of the Regions, which rank fiscal decentralization according to 3 indicators:

- Share of local expenditures in all public;
- Share of local revenues (excl. funds) in all public;
- Autonomy of local revenues.

According to this ranking, Bulgaria ranks 20th in the first and second indicators, and 23rd in the last third indicator.(3)

5) In Bulgaria

Table 5. Main indicators for decentralization in Bulgaria for the period 2019-2023

Bulgaria	2019	2020	2021	2022	2023
Percentage of municipal revenues in GDP	6.7%	7.2%	7.4%	7.4%	7.8%
Share of municipal expenditures in CFP	15.5%	15.3%	15.6%	15.6%	17.2%
Share of municipal tax revenues in total tax revenues	3.0%	3.0%	3.2%	2.9%	2.7%

Source: Author's work based on data from the Ministry of Finance

Table 6. Share of municipal expenditures by function in expenditures by CFP functions

Functions	2019 г.	2020 г.	2021 г.	2022 г.	2023 г.
1. Executive and legislative bodies	31.0%	28.1%	30.5%	30.7%	33.4%
2. Public order and security	1.6%	2.5%	2.7%	2.4%	2.2%
3. Education	62.4%	64.0%	64.8%	65.1%	65.8%
4. Health care	4.1%	3.6%	3.8%	4.4%	4.4%
5. Social support	3.9%	4.3%	4.6%	6.1%	6.4%
6. Public works	70.7%	65.5%	67.6%	70.8%	52.6%
7. Culture	47.2%	44.2%	43.0%	45.2%	43.7%
8. Economic activities	7.5%	7.4%	7.4%	6.2%	9.8%
9. Other	2.2%	2.0%	1.6%	1.5%	1.8%
Share of municipal in public expenditure	15.5%	15.3%	15.6%	15.6%	17.2%

Source: Author's work based on data from the Ministry of Finance

Comparing data from Eurostat and the Ministry of Finance on municipal budgets shows slightly lower indicators of decentralization in national statistics. By functions, it can be seen that the most highly decentralized activities are in education, public works and culture, and the least decentralized are those in public order and security, healthcare and social support.

In dynamics, the main indicator of decentralization - the share of municipal expenditures - slightly decreased in the first year of the pandemic, slightly increased in the next two years and increased in the last analyzed year. The share of municipal revenues in GDP is slightly increasing, which is most likely a result of the lower GDP growth rate. The share of local taxes is characterized by a constant downward trend.

From the comparison of the degree of decentralization in Bulgaria and EU countries, it is clear that we are lagging behind in all indicators, with a particularly large difference in the share of local taxes and all taxes in the public sphere.

To the extent that decentralization is measured by the ratio of local indicators to those in the public sphere, it is not possible to track the influence of individual municipalities in the overall restructuring process.

Decentralization is defined as the process of transferring from central to local authorities responsibilities for providing services, decision-making rights and resources for their financing. The aim is to achieve a balance at the local level of powers and resources, which will create conditions for effective local governance.(5) By

achieving this goal, the decentralization policy provides a sufficiently large “field of own competence” to local authorities, within which they can make independent decisions on the formation and use of financial resources. The field of own competence actually outlines the degree of financial autonomy of local authorities, which is the first characteristic of local self-government described in the EHMS - “the right and real opportunity of local authorities to regulate and actually manage ... under their responsibility ... a substantial part of public affairs”. The latter is the basis for formulating quantitative indicators of financial autonomy: at least 50% of municipal revenues to come from own sources and municipal authorities to be able to make independent decisions on the use of at least 50% of expenditures.

The second characteristic of local self-government (6) is that the above powers of local authorities are exercised “in the interest of their population”. This means that the scope and type of services provided are determined by the needs of the local population. Its implementation is related both to the efforts of local authorities to inform, consult, attract the local population to form and participate in local policies, and to the involvement of the population in the activities of local authorities and their responsibility to participate responsibly in their financing.

The results of the performance of EU countries are accepted as criteria for the degree of decentralization. The comparative performance of decentralization indicators in Bulgaria and the average level for the EU show that Bulgarian municipalities lag behind European

ones in all indicators, but the difference in the indicator “share of local taxes in all taxes in the public sphere” is particularly large.

The share of municipal expenditures in all public expenditures by function shows a lower share of Bulgarian municipalities in the areas of

public order and security, healthcare, social assistance and economic activities and a higher share in expenditures for education and public works.

The results of the analysis of the level of local self-government in Bulgaria show:

Table 7. Share of local service spending in all municipal spending

Bulgaria	2019	2020	2021	2022	2023
Average for the country	47%	42%	39%	39%	38%

Source: Author's work based on data from the Ministry of Finance

The smaller a municipality, the higher the costs per resident. This indicates lower efficiency of services in smaller municipalities.

Table 8. Share of own revenues from all municipal revenues

Bulgaria	2019	2020	2021	2022	2023
Average for the country	30%	27%	28%	25%	23%

Source: Author's work based on data from the Ministry of Finance

Low and declining share of municipalities' own revenues. The most influential factor for this is the elimination of fees for kindergartens and nurseries in 2022.

Based on these two indicators, it can be concluded that the financial independence of municipalities is small, decreasing and generally insufficient for the implementation of local self-government in Bulgaria.

The main conclusion that has been made about local democracy is that without the presence of local communities, aware of their common territorial interests, actively participating in the implementation of local policies in an environment in which local authorities feel responsible and work for their citizens, one cannot speak of local self-government. If there is no local democracy, one speaks of local government, but not of self-government.

CONCLUSION

This study focuses on municipal budgets, which reflect the financial relations between central and local governments, between local governments and the population.

The main conclusions from the comparative analysis of local finances in Bulgaria and with EU countries show:

- High degree of centralization of public finances in Bulgaria;

- Extremely low share of tax revenues that go to municipal budgets.

The main conclusions from the analysis of municipal budgets in Bulgaria are:

- Strong dependence on state transfers;
- Insufficient revenue and expenditure powers of local governments.

The main reason for this is the stalled decentralization reform. For example, in the last year in which it was in effect, the share of own revenues reached 32.4%. In 2023, this indicator is 23.3%. Based on the comparative analysis of municipal budgets, the following conclusions are formulated:

- Larger municipalities provide more and cheaper services;
- Relations between the population and its representatives in the municipality are more intense in smaller municipalities.

The conclusion that has been made is that a large part of the problems of municipal finances, which will support the establishment and functioning of local self-government, could be solved by restarting the decentralization process. For this purpose, the following changes in the regulatory framework are proposed, which will lead to an increase in the efficiency of local government and will create conditions for the development of local democracy:

- Restructuring of services in the direction of increasing the share of those for which municipalities have full spending powers;
- Redirecting part of the personal income tax to municipal budgets for their financing
- Increasing the size of municipalities;
- Increasing the powers of city halls.

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