OECD Public Governance Reviews

Public Investment in Bulgaria

PLANNING AND DELIVERING INFRASTRUCTURE

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BETTER POLICIES FOR BETTER LIVES

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Foreword

Improving public investment efficiency and effectiveness has become a main priority for the Bulgarian Government. Prior to the outbreak of the COVID-19 pandemic, Bulgaria was already taking steps to increase public infrastructure investment both from national sources and co-financed by European Union (EU) funds.

The National Development Programme BULGARIA2030, adopted in early 2020, lined up the infrastructure investment priorities in transport connectivity, digital connectivity, circular and low-carbon infrastructure, amongst others. Over the course of 2020, the government pledged to invest a total value of EUR 1.95 billion in transport infrastructure through the Ministry of Transport and Communication's Transport Connectivity 2021-2027 programme, adopted in 2020. Another important investment programme was the National Broadband Infrastructure Plan for Next Generation Access Connected Bulgaria, which aims to channel investments towards digital infrastructure in the country. These investments are complemented by the National Recovery and Resilience Plan, financed by the Recovery and Resilience Facility from the European Union, which largely focuses on digital connectivity, transport connectivity, water and sanitation infrastructure and energy efficiency, with a sustainability dimension. In the area of transport, the plan includes a sizeable allocation (EUR 666 million) of decarbonisation measures such as introducing new electric rolling stock for sub-urban and inter-regional rail transport; the construction of a new section of the Sofia metro; sustainable urban mobility pilot scheme including the purchase of zero-emission public transport vehicles and electric vehicle charging infrastructure (European Commission, 2021[1]).

Bulgaria's Recovery and Resilience Plan supports the digital transition with reforms and investments aimed at increasing the coverage of very high capacity networks across the country, including in rural and sparsely populated areas (EUR 270 million); enhancing the digital skills (EUR 319 million); improving the digitalisation of public administration and the provision of digital public services in key areas such as justice, postal services, health, employment and social protection (EUR 297 million); supporting the digitalisation of businesses (EUR 15.7 million), as well as of the transport (EUR 202.6 million) and energy sectors (EUR 75.7 million).

In light of these investments, this project's purpose is to identify ways to improve public investment efficiency and effectiveness in Bulgaria. This includes supporting the country in its efforts to strengthen institutional and administrative capacity at the national level, to facilitate social inclusiveness, green and digital transitions, to effectively address the challenges identified in the country-specific recommendations and to implement EU legislation.

The report finds many good practices already exist across Bulgaria, which we encourage being applied more widely across Bulgaria's public investment system. The report also highlights best-practice approaches from other European countries and beyond, which Bulgaria would benefit from adopting. By implementing the recommendations in this report, Bulgaria can ensure its public investment system is better placed to lift the wellbeing and prosperity of the Bulgarian people and shift towards a more green, digital and inclusive future.

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Under the direction and oversight of Elsa Pilichowski, Director for Public Governance and Edwin Lau, Head of the Infrastructure and Public Procurement Division, this review was led by Robert Addison, Policy Analyst in the Infrastructure and Public Procurement Division, with support from Paulo Magina, Deputy Head of the Infrastructure and Public Procurement Division and Brian Finn, Senior Policy Analyst in the Public Management and Budgeting Division. Further input was provided by Zdravka Pekova, Giorgia Lombardi, Alana Baker, Peter Welch, Andrew Blazey and Delphine Moretti. Editorial assistance was provided by Thibaut Gigou.

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Table of contents

FIGURES

TABLES

BOXES

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List of Acronyms

CBA	Cost benefit analysis
CEF	Connecting Europe Facility
CRDA	Canadian Regional Development Agencies
DG REFORM	Directorate-General for Structural Reform Support
DNSH	Do-no-significant-harm
DSDP	Detailed Spatial Development Plan
EC	European Commission
EIA	Environmental impact assessments
GSDP	General Spatial Development Plan
ITF	International Transport Forum
ITSDS	Integrated Territorial Development Strategies
KPI	Key performance indicators
MIRT	Infrastructure, Spatial Planning and Transport
MOF	Ministry of Finance
MRDPW	Ministry of Regional Development and Public Works
MTBF	Medium-term Budget Forecasts
NAO	National Audit Office
NSDC	National Spatial Development Concept
PBA	Primary Budget Authorizer
PEA	Public Enterprises Agency
PPP	Public Private Partnerships
TFEU	Treaty on the Functioning of the European Union

Executive Summary

Good public investment provides the backbone of modern, well-functioning societies and supports the wellbeing of people. Public investments contribute to social and environmental objectives through the provision of essential services - such as electricity, water and sanitation, broadband connectivity, public transport, health care, education, and flood protection - that contribute to people's health and quality of life.

Over the coming decades, Bulgaria will need to find ways to reduce emissions, improve its resilience to shocks and ensure it is providing equal opportunities to all citizens. Responding to climate change requires fast action to reduce emissions in line with the 2050 Paris Agreement. In addition, more extreme weather events, induced by climate change, are expected to become more frequent and severe, requiring urgent action to ensure communities are resilient to a more extreme climate.

For Bulgaria, responding to these events will require significant new public investment, which will be challenging to meet given Bulgaria's fiscal constraints. However, Bulgaria can put itself in a strong position to address these challenges by investing in infrastructure that is proven to address these challenges while also delivering good value for money. To do this, Bulgaria will need to transform how it plans, funds and delivers its public investments. Adopting the recommendations in this report, and the guidance that follows, would put Bulgaria in a strong position to respond to the challenges it faces over the coming decades.

On completing this review, the OECD makes the following findings:

- **There are many examples of best practice public investment management in Bulgaria that could be replicated by line ministries and municipal governments.**
  - Many of these practices relate to processes for managing European Union-funded projects, such as checks for compliance with analytical methodologies, performance monitoring, reporting requirements and engineering and design standards.
  - The processes overseen by the Executive Agency Audit of European Union Funds in the Ministry of Finance have several examples of best practice that could be emulated across national and subnational governments.
- **There are robust stakeholder engagement processes in place.**
  - There are also some highly innovative examples of where municipalities have gone to considerable lengths to capture the views of all citizens in the future planning of their cities.
  - In general, public participation processes, which happen as part of environmental impact assessments, appear to capture the perspectives of a wide cross-section of society.
- **Bulgaria suffers from a lack of co-ordination across national and municipal levels.**
  - The country is missing opportunities to take advantage of new efficiencies and synergies that a more co-ordinated approach would provide.
  - A centrally mandated project selection process, more sharing of services (horizontally and vertically) and a more co-ordinated capital budgeting system could help address this.
- **Bulgaria should be more focused on how it can use public investments to achieve its desired public outcomes.**

- The challenge of transitioning Bulgaria's economy to net zero in the coming decades is immense. Like all countries, Bulgaria will not make this transition by defaulting to traditional solutions. Instead, public institutions must find new ways to achieve the public outcomes they are seeking.
- For example, providing energy to people while meeting carbon-reduction targets will require new, cleaner sources of energy. Ensuring people stay connected to employment and services will require new, cleaner forms of transport and greater digital connectivity.
- Focusing on the outcomes that infrastructure delivers, rather than traditional built solutions, opens up new ways to deliver the same, or better, levels of service through new technologies that are more affordable and easier to deliver and which meet international commitments such as carbon reduction targets.

- **Insufficient resources is a common challenge across national and municipal government, but less of an issue for directorates responsible for managing EU funds.**
  - Resource constraints are often due to difficulties retaining talent when competing with higher salaries in the private sector. This is a perennial problem for many public sectors; nonetheless, addressing resource constraints could help improve the performance and responsiveness of the public sector and its capacity to make public investment decisions that better serve the needs of people.
- **While Bulgaria has robust strategic direction in the form of the National Development Programme "Bulgaria2030", the link between this and investment decisions made on the ground is often unclear.**
  - A strategic planning hierarchy whereby priorities, targets and KPIs clearly and consistently cascade from the highest-level of government to implementation plans allows decision-makers to measure whether the government's policy goals are being implemented. It also allows decision-makers to demonstrate to communities, businesses and investors how the government's objectives are being implemented, providing certainty on the immediate to long-term policy environment. There are indications that decision-makers may not always make investment decisions with their long-term goals in mind. For example:
    - Infrastructure projects funded from the state budget are often abandoned as priorities within government change or as projects approach cost overruns, often in favour of other projects that had previously been halted
    - Projects that can be delivered quicker often get prioritized over projects that will take longer to complete.
- **While not a common practice, some municipalities are entering inter-municipal cooperation arrangements to achieve economies of scope and scale.**
  - Examples include the sharing of services among municipalities, or among utility providers within a municipality (e.g. transport, electricity, water services, and waste management). This sharing of services often results in better service outcomes, better facilities and improved monitoring of activities, cost savings and a greater responsiveness to outages.
- **Bulgaria needs a mandated, centre-led methodology for assessing and prioritising infrastructure projects, such as cost-benefit analysis.**
  - Because ministries and municipalities apply bespoke project appraisal tools and criteria, decision-makers cannot consistently compare investment proposals across portfolios to ensure they are allocating resources to the highest societal priorities. In addition, the main criteria for selecting projects in Bulgaria are 'project readiness', 'urgency', and the capacity to fund projects from year to year; this does not help direct public resources to where they are needed the most.
- **Life-cycle costing of projects is also not common.**

  - Often the main cost-related focus during the planning phase is the capital cost (i.e. the cost up until the point that the project is operational). Only seldom are life-cycle costings applied to investment design and appraisal.
- **The capital budgeting system is decentralised from the Ministry of Finance to line ministries, which does not allow or encourage line ministries to co-ordinate their investment programmes to achieve efficiencies and synergies.**
- **The lack of a rigorous public investment management system may be leading to wasteful spending**
  - EU-funded projects are well monitored but there seems to be a more haphazard approach to domestically funded projects. Regular reporting on capital expenditures is performed but there is little analysis of the reports and little monitoring of physical progress.
  - There is also no fiscal risk management strategy, although the debt/GDP ratio is low and there is a contingency provision in the budget. While several fiscal risks are monitored and reported in the budget, there does not appear to be systematic identification of risks with mitigating factors specified.
- **The multi-annual budget framework is top-down with little emphasis on the need to engage in realistic planning and costing of projects so that projects are carefully prioritised on a whole-of-life basis**
  - However, the Medium-Term Budget Forecast/Updated Medium-Term Budget Forecast contains medium-term estimates of capital expenditure, and the programme budgets of line ministries -- which are primarily responsible for infrastructural expenditure -- contain information and projections on the implementation of significant capital investments in the medium term.
  - Also, State bodies are not allowed to carry forward unspent funds from year to year. Municipal bodies can carry forward unspent funds into the next year but State bodies must surrender these funds and agree with the Ministry of Finance to spend them as part of the following year's budget.
- **While there is a regime for concession contracts and PPPs, the model is seldom used.**
  - The general public is averse to paying user charges and the contractor market believe PPPs impose too much risk upon them. Traditional procurement is much better understood and therefore preferred.
  - Yet, there is some evidence that concession contracts improve the quality of services, lower costs for consumers and allow concessionaires to make returns that they reinvest into their networks.

Recommendations can be found in more detail in Chapter 1.

1 Recommendations

This chapter summarises the recommendations for Bulgaria to improve the effectiveness and efficiency of its public investment processes, focusing on infrastructure planning, investment and delivery. The recommendations cover the following topics: long-term strategic vision and planning, coordination across sectors and between levels of government, project selection, prioritisation and appraisal processes, capital budgeting and fiscal sustainability, value for money for public and private investment in infrastructure and integrating stakeholder engagement into planning and decision making.

This section sets out the OECD's recommendations to strengthen the public sector's capacity to plan and deliver more efficient and effective public investments. These recommendations are based on the findings described in chapters 2 – 7.

1.1. Long-term strategic vision and planning

- Adopt a methodology that gives Bulgaria a consistent, best-practice approach for identifying public investments that will be most effective at addressing genuine public needs. The Five Case Model (see Box 2.1) is a good template, noting that it will need refining for the Bulgarian context. OECD will provide more guidance on this as part of the training manual on project selection (activity 2.2).
- At the national and subnational levels, monitor whether key performance indicators (KPIs) set in strategic direction, such as Bulgaria2030 and other strategic direction documents, are reflected in spatial plans, cost benefit analysis, programme plans and project plans. While the KPIs should become more specific further down the planning hierarchy, there should be a clear visibility of a KPI set in a national strategy down to the project level, and all stages in between. This change also requires putting in place appropriate sanctions or disincentives for when KPIs are not met.
- External audits of all national-funded projects must include checks of whether projects are meeting their KPIs, with the results made publicly available. If alignment with KPIs cannot be demonstrated immediately, the responsible line ministry, delivery body or municipality should be set a deadline for reporting back on how the project is achieving its KPIs. The process should follow a similar administrative procedure used by the European Commission and Executive Agency for the Audit of European Union Funds.
- Ensure the actions relating to public investment in the National Climate Change Adaptation Strategy and Action Plan are accompanied with more detailed actions that are specific, measurable, achievable, realistic and timebound (SMART). This will ensure infrastructure practitioners know precisely what is required to deliver more climate-resilient infrastructure.
- Ensure that actions to reduce carbon emissions stated in the Integrated Energy and Climate Plan 2021 – 2030 and the Integrated Transport Strategy for the period until 2030 are also SMART.

1.2. Coordination across sectors and between levels of government

- Currently, one of the European Commission's criteria for funding projects up to five years is that they are included in relevant spatial plans. The national government should adopt this policy, applying it to all state-funded projects at the national and sub-national levels, assuming those projects also meet all relevant quality control and assurance requirements. Committing funds to projects shown in spatial plans provides a visible, credible and reliable pipeline of future investments.
- When auditing state-funded projects, confirm whether the relevant project is included in all relevant land-planning instruments, such as general spatial plans, detailed spatial plans, integrated territorial development strategies and municipal integrated development plans under the Regional Development Act, Spatial Development Act and other legislation. The responsible national-level body should adopt the administrative procedures used by the European Commission and Executive Agency for the Audit of European Union Funds, which they use to monitor and enforce similar requirements. The national-level body responsible for the audit should also make the results made publicly available.
- Reform the Regional Development Act so that municipalities, when preparing municipal integrated development plans (MIDP), must consult with:

  - relevant line ministries on economic and social considerations, in addition to environmental and cultural heritage considerations, which is currently required
  - all relevant ministries when preparing the first draft of the MIDP, as well as after a first draft has been developed, which is the current requirement
  - directly-affected property owners, communities, non-governmental organisations and private organisations that represent environmental, social and economic interests.
- Direct a suitable line ministry to review and report back on new reforms needed at the national and sub-national levels that would enable and encourage line ministries, delivery bodies and municipalities to enter new arrangements to share services, either vertically or horizontally. The review should include any incentives the national government can create that would encourage more sharing of services, such as making co-funding available for infrastructure delivery, operations and maintenance that have cross-institutional governance arrangements. The review should draw from lessons learned from previous efforts to create inter-municipal cooperation in waste and water management.
- Note: there are additional recommendations relevant to coordination across sectors in the capital budgeting and fiscal sustainability section below.

1.3. Project selection, prioritisation and appraisal processes

- Create a formal requirement for ministries, delivery bodies and municipalities to follow a single, consistent project selection methodology, which also captures wider economic benefits and supported by other project selection tools, such as multi-criteria assessment. The methodology should be required for all projects, including resilience projects. The methodology must include regular reviews to ensure it is being implemented properly and that objectives are being met at key stages of the lifecycle. The project selection methodology should replace all existing criteria that do not establish public value, such as “state of urgency, readiness, compliance with estimated budget ceilings”.
- All investments valued above EUR 1 million in capital expenditure must follow all steps of the Guide to Risk Management and Project Selection and Appraisal, provided by the OECD under activity 2.2. Because project selection can be a resource-intensive exercise, the degree of information-gathering and analysis needed when following these steps needs to be proportionate to the scale and risk of the proposed investment. The authorities responsible for approving expenditure will need to judge whether the steps set out in the manual have been adequately meet, according to the scale and risk. The risk heat map in Figure 1.2 below should be used to determine the appropriate level of proportionality.
- Establish a centre of excellence that can promote and oversee the implementation of the mandated project selection methodology described above. The centre of excellence would develop and deliver training and guidance for line ministries, delivery bodies and municipalities and report on compliance with project selection requirements. We recommend the centre of excellence is housed in the MoF, given it already provides some guidance to line ministries on project selection.
- Audits of all state-funded projects must include checks of whether the mandated project selection methodology described above is being properly applied and has demonstrated that the project in question will generate sufficient net benefits to justify its investment. The responsible national-level body should adopt the administrative procedures used by the European Commission and Executive Agency for the Audit of European Union Funds, which audits cost benefit analysis processes for projects that generate revenue. The responsible national-level body should also make the results publicly available.

1.4. Capital budgeting and fiscal sustainability

- As part of capital budgeting and project selection processes, line ministries, delivery bodies and municipalities need to demonstrate the full estimated life-cycle costs of a project across the construction, operations, maintenance phases and, when relevant, the decommissioning phase.
  - Life-cycle costs should include:
    - up-front costs for constructing and/or purchasing a new asset or related resources, such as land;
    - preparatory costs related to undertaking the project, such as economic analysis, feasibility studies and obtaining environmental approvals;
    - costs incurred to operate the service (such as service payments, lease payments, personnel costs which would not otherwise be incurred);
    - expenditure required across the lifecycle for maintenance and renewals;
  - Life-cycle costs do not include:
    - depreciation (should be included in the capital cost, so would be double-counted if included);
    - costs that would be incurred regardless of the investment selected, such as existing corporate overheads;
    - inflation over the investment cycle (cash flows and discount rates in real, not nominal terms);
    - value-added tax.
- The authorities should ensure that projects which are selected for implementation are not only providing value for money but are affordable within a multi-annual capital framework. In this regard the following should be noted:
  - Capital budgeting requires that all investment projects be subject not only to value for money considerations but also financial appraisal, where the primary focus is on affordability and impact on the public finances. This is different to a value for money focus because there is no point in pursuing a worthy project if it cannot be paid for.
  - Good practice requires capital allocations to be made on a multi-annual basis, so that ministries can undertake proper medium-term planning for the cost-effective delivery of investment projects. To create greater certainty regarding the funding of projects, the authorities should introduce reforms that facilitate a genuine multi-annual approach to capital budgeting rather than the annual approach that applies currently. Accordingly, the MoF must ensure that multi-annual estimates for the costs of projects are robust and credible. As many capital projects can take many years to complete, the multi-annual approach should encompass a five-year framework for capital expenditure.
  - There should be safeguards against cost over-runs. Therefore, even where there is agreement on a ministry's multi-annual allocation, there should be a limit on contractual commitments or binding agreements. This limitation would ensure that the value of binding agreements made by a line ministry in the current year would not exceed in respect of each of the subsequent three year's allocation, for instance, 75% in the first year, 60% in the second year and 50% in the third year. These limits would be rolled over each year. If the ministry believes the limits need to be exceeded, they should be discussed with the MoF to ascertain whether the limit should be exceeded on an exceptional basis.
  - The affordability of a proposed project must be regularly assessed considering:
    - New cost information and timing of payments which emerges during the tendering process

  - The up-to-date position regarding the Medium-Term Expenditure Framework
  - Wider priorities with which the proposal under consideration must compete for scarce resources
  - Ability to secure value for money in the context of the wider external environment
- The authorities should ensure that the reports on capital expenditures are analyzed and that both expenditure and physical progress are monitored.
  - The reporting format should ensure that all projects are monitored to ensure they are being completed to the required quality standard, on time and within budget.
  - The reporting format should ensure that throughout the project lifecycle, line ministries pay careful attention to costs and report on the potential risks which may impact viability and deliverability.
  - Reports should provide an up-to-date assessment of progress against scheduled costs and delivery timeframes.
  - Where cost changes occur, these need to be analyzed and factored into the multi-annual expenditure framework.
  - Physical progress should be kept under review so that changes in circumstances can be taken into account.
  - The MoF should be responsible for the overall coordinating role. Responsibility for managing the implementation of a project rests with the managing authority but the MoF Directorates with responsibility for monitoring expenditures should ensure that managing authorities fulfil this role and that cost changes are factored into the multi-annual expenditure framework. These Directorates, therefore, should analyze reports (provided by the Treasury Directorate), ask follow-up questions of the managing authorities and inform the Budget Directorate about cost changes impacting on the Budget.
- State budget entities should be allowed to carry at least some unspent capital moneys forward into the following year. This will reinforce a multi-annual approach to investment, create greater certainty around funding and encourage entities to manage projects beyond the annual horizon. It could mitigate any risk that projects are selected in the first instance mainly to avoid underspend on the budget units' capital allocation.
  - Carryover should be limited to a level that is consistent with good project management. Therefore, any proposal by a public budgeting authority (PBA) to carry over unspent capital should be subject to a ceiling of 10% of the budget year's capital allocation for that PBA.
  - The sum carried forward would be in respect of expenditure approved by the National Assembly for the previous year and would not be deducted from the allocation for the new budget year.
  - Any sum that is carried over and not spent in the following year will be surrendered to the Treasury Account.
  - Capital carryover will not be allowed into the following year where a PBA has received a significant supplementary budget allocation in the first year. In such a case, unspent capital should in the first instance be used to reduce the burden of the supplementary budget on the Treasury Account.
- Develop a unified framework for managing fiscal risks, which will include the fiscal risks associated with public investment projects
  - Establish a legal basis that underpins the regular identification, disclosure and mitigation of fiscal risks.
  - Ensure that the fiscal reserve that is established in the annual State Budget Law takes account of fiscal risks.

  - Provide that the MoF will actively manage fiscal risks on an ongoing basis by:
    - Maintaining and updating a register of fiscal risks
    - Coordinating risk management with line ministries, including agreement about methodologies
    - Assessing the likely impact and the probability of particular risks occurring, taking account of historical experiences
    - Defining the amount of the fiscal safety reserve in legislation so that there is a minimum amount put aside each year
  - Incorporate the risks associated with capital investment projects into the fiscal risks framework so that any contingency will take account of these risks.
- The MoF should fulfil an active role in coordinating and monitoring public capital expenditures. The MoF already has such a role but once the multi-annual ceilings and the budget allocation has been agreed there is minimal monitoring. The Ministry should:
  - Report actual aggregate spending against monthly expenditure profiles using information submitted by PBAs to the MoF in their monthly reports
  - Maintain and update the multi-annual expenditure framework within which PBAs operate to ensure that changes in costs are tracked and reflected
  - Ensure that appraisal, implementation and reporting by the PBAs comply with the regulatory framework
  - Ensure greater coordination of budget decisions across line ministries to capture greater efficiencies and avoid duplication and lost opportunities.
- Internal audit units of PBAs with high capital expenditure should focus more on investment projects. Given that capital projects can incur significant costs, it would be worthwhile focusing on the procedures for agreeing contracts and managing these types of projects. In this regard, internal audit should try to build capacity so that they can address issues raised elsewhere in these recommendations, including the use of KPIs, whether the project is included in other land-planning projects, and whether the mandated project selection methodology described above is being properly applied.

1.5. Value for money for public and private investment in infrastructure

- Create a legal requirement that all projects valued above EUR 50 million in capital cost be considered for the concession contract model. This strengthens the EUR 50 million threshold rule, which already exists but only on a voluntary basis. This requirement should be monitored, enforced and reported on by the Policy Coordination and Concessions Directorate in the Administration of Council of Ministers, given their existing role in overseeing the Concessions Act. As part of this requirement, the Policy Coordination and Concessions Directorate should publicly report on the numbers of projects considered for the PPP/concession model, with an explanation from the relevant line ministry as to why the model was or was not adopted for each procurement that meets the threshold. The Policy Coordination and Concessions Directorate should use this information to analyse whether opportunities to use the concessions contract model to get better value for money and public outcomes are being missed, and subsequently make their findings publicly available.
- Review the institutional arrangements that support implementing PPPs and concession contracts, focusing on the Concessions Coordination Council and Economic and Social Policy Directorate in the Administration of Council of Ministers. The purpose of the review is to ensure that the agencies that play a role in implementing the Concessions Strategy are adequately structured, resourced and have necessary access to decision-makers in order and achieve maximum efficacy.

- Ensure there is regular training and upskilling on the latest developments in best practice and changes to procurement legislation. Training could also focus on providing advice for sourcing suppliers, best-practice market engagement, establishing networks for sharing best practices among public purchasers and other forms of guidance. One option for delivering this could be greater support given to the Institute of Public Administration to deliver training sessions to officials at the national and sub-national levels.
- Expand the information and education campaign focused on upskilling municipalities on the appointment and management of concession contracts to national-level officials. The content would need to be reviewed and updated to ensure it is also applicable to national-level officials. Information and education campaigns should focus on how PPPs and concession contracts can be used to deliver value for money and quality public investment outcomes. Training should also address a widespread misconception among public authorities and the public that concessions are a source of revenue for the state and municipal budgets.
- Invite the Ministry of Finance to work closely with the Public Procurement Agency of Bulgaria to assess how processes, methodologies and contracts for conventional public procurement can be more standardized to help make procurement of public investments more efficient and reduce errors, while recognizing the need for bespoke contracts in some instances to allow for unanticipated scenarios or outcomes. The Ministry of Finance could identify a pilot national investment project, together with PPA, where an improved procurement framework could be applied to validate its appropriateness.

1.6. Integrating stakeholder engagement into planning and decision-making

- All stakeholder groups that inform and monitor public investments must have transparent criteria showing how a diverse range of representatives are selected and all real, potential and perceived conflicts of interest are managed. For example, the Council of Ministers' process for selecting the institutions that participate on stakeholder groups that inform and monitor EC-funded investments, and the process for managing conflicts of interest amongst the members, must be made visible to the public.
- Review the laws, policies and regulations governing the process of acquiring land to finds ways to make the process quicker while upholding legal requirements. As part of the review, officials should consider adopting the following initiatives:
  - Reduce the amount of documentation required
  - Set time-limits within which an application must be approved or declined
  - Specify as early in the process as possible the information required of project proponents and landowners, including lists of permits, decisions and legal opinions required and details of the authorities and stakeholders to be involved in the application process
  - Train officers responsible for assessing land acquisition applications so they can process requests more quickly
  - Other initiatives that may make the process more efficient.
- Line ministries, delivery bodies and municipalities should emulate the best practice stakeholder engagement and consultation practices being used by Sofia Municipal Council used as part of the strategic vision-setting and long-term planning (see details under *Section 8: Integrating Stakeholder Engagement into Planning and Decision-making)*. These practices need to be tailored to the unique circumstances of each sector, project, population size and geographic area.

1.7. Risk management

- The Ministry of Finance should adopt a robust risk management framework that ensures risks across all stages of the investment lifecycle are adequately identified, assessed, controlled, monitored and communicated to critical decision-makers and stakeholders. The MoF should require that agencies and municipalities follow the requirements of the risk management framework as a condition of national funding. The OECD will develop and present a risk management framework, in the form of a manual, as part of Output 2 of this project.
- As required as part of activity 2.1 (drafting of recommendations), OECD recommends a grid for risk assessment for investment projects that covers all stages of the investment cycle. An important step of the risk management process is to assess risks by evaluating their likelihood and severity. An assessment of risk should ask the following questions:
  - What is the likelihood the risk will occur? Depending on the risk, this likelihood may be defined or measured qualitatively or quantitatively and expressed mathematically or descriptively.
  - If the risk occurs, how severe will the consequences be? Similarly, the severity of the risk can be expressed qualitatively or quantitatively.
  - How do existing control measures affect the likelihood and the severity of the risk?
- These questions can be answered using internal knowledge and experience, external resources such as audit reports, or by consulting qualified and experienced outside experts. In determining both likelihood and severity, assessments should account for existing risk management measures and distinguish between inherent and net risk. These are defined as follows:
  - Inherent risk is the level of risk before the application of any risk management activities or control measures to reduce its likelihood or severity
  - Net risk is the level of risk following the application of any existing control measures or actions
  - Residual risk is the level of remaining risk following the application of new control measures or actions that may be under consideration.
- Distinguishing between inherent, net and residual risk allows for an appropriate assessment of risk on an ongoing basis, as well as an evaluation of the appropriateness and value of control measures (see Figure 1.1).

Figure 1.1. Mitigation of inherent risk to residual risk

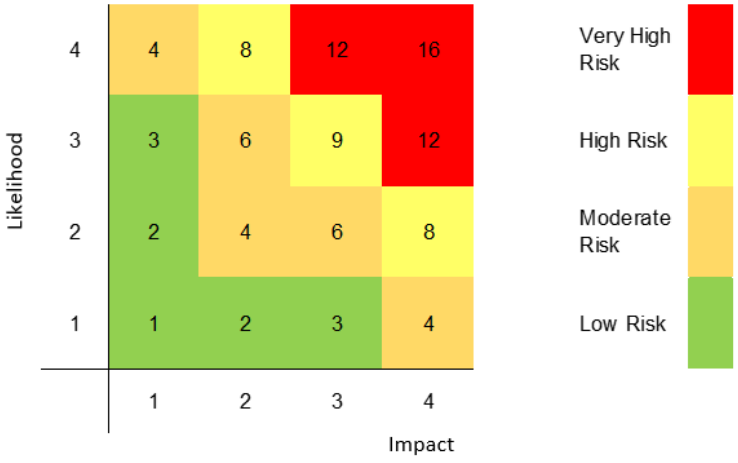
Source: (OECD, 2020[1])

The risk heat map shown in Figure 1.2 has been developed by the OECD to assess the criticality of risks at all stages of the infrastructure lifecycle. The likelihood (L) and the severity (S) estimate a risk's criticality (C) as the following formular depicts: (C = L x S). For example, if the likelihood is 4 and the severity is 3, then the overall criticality is (4 x 3) = 12. A risk's criticality rating can then be plotted on a risk matrix tool, which helps to compare between risks and track their criticality over time. Risk matrices should be regularly reviewed and updated to reflect the impact of the risk control and mitigation measures put in place.

The impact of risks can vary at different stages of the lifecycle, which means a risk assessment should be applied to each lifecycle stage.

Figure 1.2. Risk heat map or matrix

Likelihood	Likelihood scale examples
Very High (4)	• Probability of 76-100% • Will occur more than 20 times per year
High (3)	• Probability of 51-75% • Will occur 11 to 20 times per year
Moderate (2)	• Probability of 26-50% • Will occur 4 to 10 times per year
Low (1)	• Probability of up to 25% • Will occur 0 to 3 times per year



Impact	Impact scale examples
Very High (4)	• Budget exceeded by 50% • Unacceptable performance failure • Key milestone delayed by more than 6 months
High (4)	• Budget exceeded by 25% • Performance failure in area of critical importance • Key milestone delayed by 3 to 6 months
Moderate (2)	• Budget exceeded by 10% • Performance failure in area of minor importance • Key milestone delayed by 1 to 3 months
Low (1)	• Cost changes can be accommodated within budget • Schedule adjustments can be accommodated within plan

Source: (OECD, 2020[1])

1.7.1. Improving public sector resourcing across national and municipal government

- Widen opportunities for mid-career recruitment into the public sector and create opportunities for people to move in and out of the public sector. This can mean creating new contract structures that allow for people to enter for specific needs or projects, without requiring extensive experience in the public service.
- Evaluate minimum requirements, such as strict qualification or examination requirements, which may be unnecessarily excluding some candidates.
- Reduce the need to source skills externally by developing skills and competencies in existing staff.
- Attract and retain skilled staff and create attractive employment opportunities by:
  - Enhancing employee mobility so staff can move within or between governments at either the international, national and sub-national levels
  - Developing programmes that encourage professional and personal growth in the workplace that are tailored to the needs and aspirations of the individual supporting further education and research interests that align with organisation needs and goals, such as graduate and post-graduate study for certain staff. For example, ministries and agencies should ensure they are

meeting their legal requirement under Article 35(1) of the Civil Servants Act, which is to ensure they are providing opportunities for civil servants to receive new qualifications and be retrained.

- Embrace flexible working arrangements, which can be a large benefit for many employees at a low cost.

- During recruitment, emphasise the unique opportunities that only a career in public service can offer, such as the opportunity to contribute to society and impact people's lives.

Reference

OECD (2020), *Guide de management des risques dans les marchés publics en Tunisie*, https://www.oecd.org/gov/public-procurement/publications/Guide-de-management-des-risques-dans-les-marches-publics-en-Tunisie-comp.pdf. [1]

2 Long-term strategic vision and planning

It is important that countries have long-term strategies and plans that guide public investment decisions at the highest level. This ensures that all public investment decisions are planned, designed and delivered in a way that address genuine public needs. Long-term planning gives citizens, governments and infrastructure developers certainty about future investments, which is important given infrastructure can require years of planning and can be in operation for many decades. This chapter expands on the importance of long-term strategic vision and planning for public investments, citing international best practice, and assesses the role of long-term planning in Bulgaria.

The OECD Recommendation of the Council on the Governance of Infrastructure describes high quality strategic direction for infrastructure as including:

> *"… shared ambitions for national and subnational development, enhancing the economic, natural, social and human capital which underpins well-being, sustainable and inclusive growth, competitiveness and public service delivery ….*
>
> *… a rigorous assessment of current and future infrastructure needs ….*
>
> *… [Being] fiscally sustainable and giving certainty by being linked with budget allocations and other sources of financing and aligned with the medium-term expenditure framework ….*
>
> *… a transparent, coherent, predictable, legitimate and accountable institutional framework for infrastructure, in which relevant institutions and levels of government are entrusted with clear and consistent mandates, ample decision-making powers, right skills and competences, and sufficient financial resources ….*
>
> *… a broad-base political consensus and stakeholder engagement process ….*
>
> *… actively contributes to the achievement of sustainable and inclusive development in line with long-term policy objectives …."*
>
> *(OECD, 2020[1])*

2.1. Why does long-term strategic vision and planning matter?

Having a clear strategic intent is important for public investments, especially infrastructure, given the long-lead times required to deliver major physical assets and the many decades they can be in operation. Most major infrastructure investments around the world involve participation by the private sector across many stages of the lifecycle, including legal, planning, design, engineering, financing, construction and maintenance phases, amongst others. The private sector relies on having a steady, predictable and reliable pipeline of projects to give them the confidence to invest in the necessary people, plant and equipment. In turn, countries benefit from being able to access high quality skills and capabilities that they can draw upon at different stages of the investment lifecycle.

This certainty begins with having a clear strategic intent. Bulgaria's strategic direction, which flows from the EU level and down through national and sub-national governments, is depicted in Figure 2.1.

For the strategic direction to carry meaning and purpose, it must be supported by a specific set of programmes, projects and policy initiatives with a broad indication of timeframes and a clear rationale and articulation for how those investments help implement the strategic direction. The high-level vision, priorities, targets and key performance indicators (KPIs) must cascade from the highest level of government policy making and clearly and consistently cascade through the planning hierarchy, being reflected in the subordinate planning instruments delivered by ministries, agencies and municipalities. Ministries, agencies and municipalities will need to build upon the high-level direction with more specific priorities, targets and KPIs, which should become more specific the further down the planning hierarchy. But it is essential that the highest-level priorities, targets and KPIs are clearly reflected in subordinate strategy and planning instruments so that government policy makers can easily measure whether their policy goals are being implemented. Also demonstrating a clear and consistent plan for implementing government policy gives citizens, businesses and the infrastructure market certainty and confidence about the timing and location of future public investments, which in turn gives them the confidence to plan and invest.

Being able to demonstrate that investments align with the long-term, strategic direction enables government to demonstrate to the public that it is allocating resources where there is a genuine need, which is important for upholding integrity and transparency. It also helps decision-makers think about the

widest possible range of solutions to a policy problem, which could include either supply-side solutions (e.g. building a new transport corridor to meet demand) or demand-side solutions (e.g. introduce network pricing to reduce or change demand patterns). This opens decision-makers up to a new set of possible solutions that may be more affordable and deliver greater benefits more quickly than if they were to deliver conventional solutions. Demonstrating that investments address genuine needs also signals to the private sector that the government has a clear policy plan that they are committed to, which can help give the private sector the confidence to invest in a country's infrastructure market.

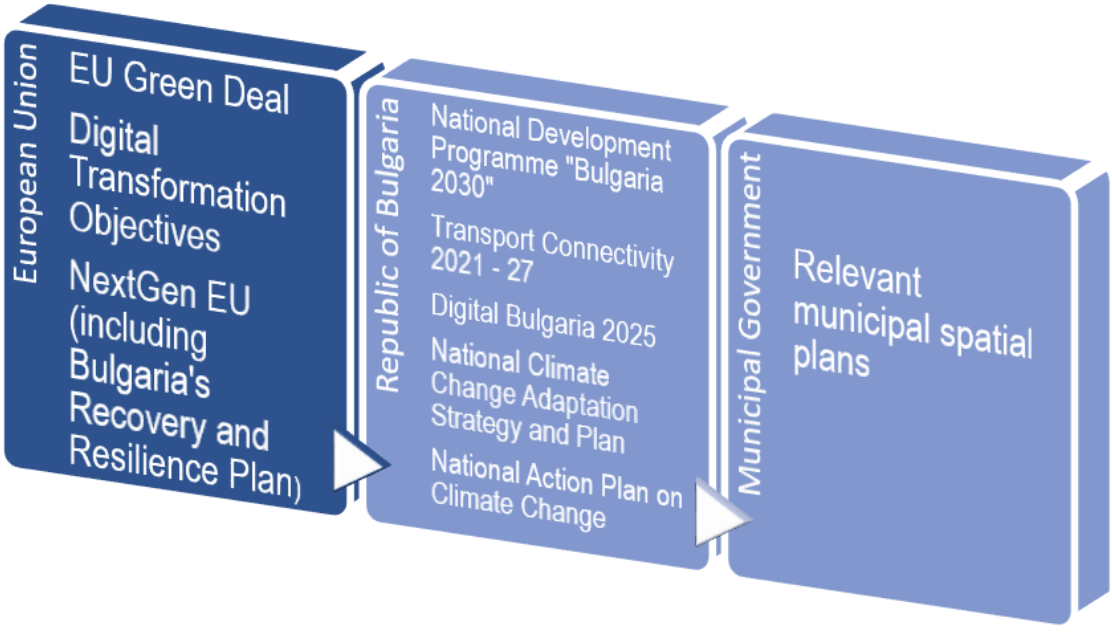
It is important to note that the strategic planning phase is not the stage at which decision-makers choose infrastructure programmes or projects. The strategic planning phase should deliberately avoid settling on any solutions, instead focusing on setting a high-level vision, identifying genuine public policy needs and making the case for the government to act on a particular need. The subsequent phases of investment planning, including the economic, commercial and management stages, are where potential solutions are shortlisted and assessed.

2.2. What is the quality of Bulgaria's long-term strategic vision and planning?

Bulgaria has a clear strategic direction to inform how resources should be allocated to investment decisions. However, this is not always flowing through to the investment decisions made at the national or municipal levels. In fact, regular stopping and starting of projects, which were reported by some Bulgarian officials, also suggests decision-makers are not sticking to their long-term strategic objectives.

The various strategic documents that are intended to inform public investment decisions at the national and sub-national governments are summarised in Figure 2.1.

Figure 2.1. Strategic vision and long-term planning instruments that direct and guide public investment decision-making in Bulgaria (across international, national and sub-national levels)



Within strategic planning, there are good examples of KPIs that are specific, measurable, achievable, realistic and time bound. For example, Bulgaria2030 contains objectives for infrastructure that are aligned

to the United Nations Sustainable Development Goals and include quantifiable performance indicators over a ten-year period. It specifies three nationwide, strategic goals, which are: 1. accelerated economic development; 2. demographic upswing; and 3. reduction of inequalities. These are supported by five "development axes", or themes: 1. Innovative and intelligent Bulgaria; 2. Green and sustainable Bulgaria; 3. Connected and integrated Bulgaria; 4. Responsive and just Bulgaria; and 5. Spirited and vital Bulgaria. These goals and axes are supported by 13 priorities, the most relevant to this report including: circular and low carbon economy (priority 4); transport connectivity (priority 7); digital connectivity (priority 8); and local development (priority 9). The priorities are supported by measurable and specific indicators, such as:

- the share of renewable energy in gross final energy consumption will increase from 18.7% (2017) to 27% (2030);
- road traffic fatalities per 100 000 inhabitants will decrease from 9.6 (2017) to 4.9 (2030);
- ultrafast broadband take-up will increase from 9.7% (2017) to 40.0% (2030), and;
- the share of population connected to at least secondary wastewater treatment will increase from 63.2% (2017) to 78% (2030). (Republic of Bulgaria Ministry of Finance, 2020[2])

Bulgaria2030 is supported by three-year action plans, the current plan being for the period 2022 – 24. These plans list the programmes and projects that give effect to the goals and priorities in Bulgaria2030. To ensure that Bulgaria2030 and the action plans are aligned and there is coordination across sectors, the action plans are approved by the Development Council of the Council of Ministers, which is comprised of all relevant ministers. These commitments then flow into the three-year Medium-Term Budget Forecast. The goals of Bulgaria2030 also guides EU funding under the National Recovery and Resilience Plan. Bulgaria2030 also uses the same KPIs used by the EU to track performance in particular areas over time, which is an effective way to ensure alignment between objectives set by the EU and Bulgaria.

Line ministries are required to demonstrate how their investment programmes align with Bulgaria2030. However, the strategic flow appears to sometimes break down when line ministries come to implement public investment objectives in their respective sectors. For example, Bulgaria2030's priorities, targets and KPIs are not directly stated in the Ministry for the Environment and Water's Priorities in the National Environment Policy (2022) or the Ministry of Transport and Communication's National Programme "Digital Bulgaria 2025": roadmap for the period till 2025 (2019). Instead, these documents set out different priorities, targets and KPIs. While it's understandable that ministries, agencies and municipalities need to set more specific objectives and KPIs further down the planning hierarchy, it is crucial that the priorities, targets and KPIs from Bulgaria2030 are reflected in subordinate planning documents. A strategic planning hierarchy whereby priorities, targets and KPIs clearly and consistently cascade from the highest-level of government to implementation plans allows decision-makers to measure whether the government's policy goals are being implemented and demonstrates to communities, businesses and investors how the government's objectives are being implemented, providing certainty on the immediate to long-term policy environment.

In addition, there are indications that decision-makers may not always make investment decisions with their long-term goals in mind. Infrastructure projects funded from the state budget are often abandoned as priorities within government change or as projects approach cost overruns, often in favour of other projects that had previously been halted. Projects that can be delivered quicker often get prioritized over projects that will take longer to complete. Frequently halting projects to start new, or restart ceased, projects is financially costly and, as noted above, can undermine private sector confidence. As noted in *Section 6: Capital Budgeting and Fiscal Sustainability*, EU-funded projects are less prone to this uncertainty because their commitments are more strictly specified in operational plans. The Guidelines for the Presentation of Draft Budgets for 2022 and Budget projections for the Period 2023-24 introduced a requirement that priority be given to investment proposals valued above BGN 1 million that can be completed within their approved annual funding allocation. Each responsible line ministry develops their own criteria for prioritizing investment proposals. The Ministry of Finance states that priority should be given to projects that have

already been "launched" or are at the design and construct phases. The Guidelines include other criteria that support strategic direction, such as the need to achieve existing KPIs and align with long-term objectives.

For EU-funded projects, there are measures in place to assess whether projects are meeting their strategic objectives. As part of regular audits, the Executive Agency for the Audit of European Union Funds assesses key performance indicators for programs and projects, cost benefit analysis and a program or project's compliance with spatial plans where the rules for the implementation of construction activities are described. When assessing the allocation of the Recovery and Resilience Fund, the EC is results-orientated, focusing on how milestones and targets are being achieved. But the same process does not seem to be in place for nationally funded programs and projects. Bulgaria's National Audit Office undertake financial audits of programs and organizations, but not individual projects or key performance indicators.

As an example, to help Bulgaria align its investment decisions with public needs, Box 2.1 provides a best practice approach for defining a problem that the public investment is intended to solve, identify the objectives of a policy intervention and develop KPIs for measuring whether the proposed investment will help achieve the intended objectives.

Box 2.1. A tool for aligning investments to a strategic vision (United Kingdom)

One best practice approach to aligning investments with strategic direction comes from the Five Case Model, which sets out five stages for developing a business case for public investments.

The first stage of the Five Case Model is the strategic dimension, which helps determine whether there is a genuine need to invest and confirms the outcomes sought from the investment. This information should be largely derived from strategic direction at the highest level.

Specifically, the strategic dimension should include:

- A quantitative understanding of the current situation
- Agreed objectives that are specific, measurable, achievable, realistic and time bound (SMART). The objectives must directly reflect the rationale for the proposal and be able to be monitored and evaluated
- Identification of the changes that need to be made to help bridge the current situation and what is needed to achieve the SMART objectives
- An explanation of the change process, including the chain of cause and effect as to how the change will achieve the SMART objectives.

This must be supported by data and other forms of verifiable evidence. Comment should also be provided on the quality and robustness of the evidence.

In subsequent phases of the Five Case Model, users step through stages that help select the most suitable solution and refine the proposal.

This model originates from the United Kingdom and has been adopted widely by ministries of finance as a best-practice methodology for analysing and determining high value public investments.

Source: (HM Treasury, 2022[3])

Regarding climate adaptation, Bulgaria's National Climate Change Adaptation Strategy and Action Plan (NCCASAP) (Ministry of the Environment and Water, 2019[4]) sets out climate change risks, outlines Bulgaria's strategic response and sets out high-level actions and KPIs across various sectors, including energy, transport, water and urban development. These actions include improving institutional capacity,

regulatory settings and provide technical guidance among other actions. The NCCASAP is to be monitored and reported on every two years, starting in 2021. However, the first report on the implementation of the measures, the National Climate Change Adaptation and Strategies (Ministry of the Environment and Water, 2021[5]), does not report on whether the KPIs set out in the Action Plan are being met.

Regarding emissions reduction, the Integrated Energy and Climate Plan of the Republic of Bulgaria 2021 – 2030 (Ministry of Energy and Ministry of the Environment and Water, 2020[6]) sets annual greenhouse gas reduction targets by 2030 in electricity, gas and heating. For transport, the Integrated Transport Strategy for the period until 2030 (Ministry of Transport and Communications, 2017[7]) sets numerous high-level objectives for reducing emissions in transport, but without enough specificity that these objectives could be monitored and reported on over time. On energy, the Integrated Energy and Climate Plan describes several energy initiatives that are expected to reduce emissions, but also does not set specific or measurable targets. Bulgaria's plans for responding to climate adaptation and emissions reduction include high-level actions, which must be accompanied with more detailed actions that are specific, measurable, achievable, realistic and timebound (SMART). This will ensure infrastructure practitioners know precisely what is required to deliver more climate-resilient infrastructure, and also ensures decision-makers can track whether Bulgaria's climate commitments are being met.

There are also good examples of strategic direction at the municipal level. For example, Burgas Municipality's Spatial Development Plan (Burgas Municipal Government, n.d.[8]) identifies the emerging opportunities and challenges that the municipality faces and the implications for infrastructure, such as: 1. population growth leading to an increase in the consumption of infrastructure services and 2. a need to address a lack of sanitation in some neighbourhoods. The Spatial Development Plan also includes a sector-by-sector assessment of the quality of infrastructure. Burgas also measures whether the city is meeting the goals set in the Burgas Municipal Development Plan, including KPIs that track achievement over time for measures such as air quality, quantities of recycled materials and numbers of public transport trips (Burgas Municipal Government, 2021[9]). Performance against KPIs is regularly reported on and overseen by a Monitoring Committee, made up of representatives from municipal government, the private sector, industry organisations, non-governmental organisations and the media (Burgas Municipal Government, 2014[10]).

We also observed good examples of long-term strategic direction being informed by a thorough stakeholder engagement process, consistent with the EU Principle of Partnership. For more details, see *Section 8: Integrating Stakeholder Engagement into Planning and Decision-making Processes*.

References

Burgas Municipal Government (2021), *Subsequent Evaluation of Municipal Development Plan of the Municipality of Burgas for the Period 2014-2020*. [9]

Burgas Municipal Government (2014), *'2.6 Monitoring, Evaluation and Updating System', Municipal Development Plan of the Municipality of Burgas for the Period 2014 – 2020*. [10]

Burgas Municipal Government (n.d.), *Spatial Development Plan*. [8]

HM Treasury (2022), *'The Five Case Model', The Green Book: central government guidance on appraisal and evaluation*. [3]

Ministry of Energy and Ministry of the Environment and Water (2020), *Integrated Energy and Climate Plan of the Republic of Bulgaria 2021 – 2030*, https://energy.ec.europa.eu/system/files/2020-06/bg_final_necp_main_en_0.pdf. [6]

Ministry of the Environment and Water (2021), *Firest Interim Report of the National Strategy for Adaptation to Climate Change and Action Plan*, https://www.moew.government.bg/bg/purvi-mejdinen-otchet-na-nacionalna-strategiya-za-adaptaciya-kum-izmenenie-na-klimata-i-plan-za-dejstvie/. [5]

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OECD (2020), *Recommendation of the Council on the Governance of Infrastructure*, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0460. [1]

Republic of Bulgaria Ministry of Finance (2020), *National Development Programme BULGARIA 2030*. [2]

3 Coordination across sectors and between levels of government

It is important for countries to coordinate their public investments so they can find synergies between investments and deliver public services that are seamless from the perspective of citizens. Coordination can take two forms: horizontal, which includes coordination across government; or vertical, which includes coordination between national and sub-national governments. The three types of coordination described in this chapter relate to capital budgeting, spatial planning and the sharing of services (vertically or horizontally). This chapter describes best-practice coordination and outlines the quality and extent of coordination in Bulgaria.

The OECD Recommendation of the Council on the Governance of Infrastructure defines high quality coordination of infrastructure as including:

> *"Investment strategies tailored to the place the investments aim to serve.*
>
> *Effective instruments for co-ordinating across national and subnational levels of government, such as co-financing arrangements, contracts between levels of government, formal consultation processes, national agencies or representatives, working together with subnational areas, or other forms of regular inter-governmental dialogue and co-operation.*
>
> *Incentives and/or opportunities for co-ordination among regional and/or local governments to match public investment with the relevant geographical area, including through contracts, platforms for dialogue and co-operation, public investment partnerships, joint authorities, and regional or municipal mergers.*
>
> *strengthening capacities for public investment and promoting policy learning at all levels of government, ensuring adequate financial resources, professional skills, and sound institutional framework to ensure effective vertical and horizontal coordination."*
> *(OECD, 2020[1])*

For coordinating public investment across levels of government, the OECD Recommendation of the Council on Effective Public Investment Across Levels of Government 2014 states that it is important to:

> *"Adopt effective instruments for coordinating across national and sub-national levels of government … to identify investment opportunities and bottlenecks, to manage joint competencies, to minimise the potential for investments to work at cross-purposes, to ensure adequate resources and capacity to undertake investment, and to create trust among actors at different levels of government. Several tools can be used … such as co-financing arrangements, contracts between levels of government, formal consultation processes, national agencies or representatives working with sub-national areas, or other forms of regular inter-governmental dialogue.*
>
> *Provide incentives and/or seek opportunities for co-ordination among regional and/or local governments to match public investment with the relevant geographical area. Horizontal coordination is essential to increase efficiency through economies of scale and to enhance synergies among policies of neighbouring (or otherwise linked) sub-national governments. Modes of coordination include contracts, platforms for dialogue and co-operation, specific public investment partnerships, joint authorities, or regional or municipal mergers."*
> *(OECD, 2014[2]).*

3.1. Why does coordination across sectors and between levels of government matter?

Coordination of public investments matters because there are often synergies between infrastructure sectors that get missed if decision-makers are planning and delivering investments from within their own siloes of government. For example, the location of housing developments in relation to transport routes and schools, hospitals, parks and other public facilities can have a significant impact on congestion levels and the ability for people to access the amenities and services that contribute to their overall wellbeing.

There are two categories of coordination relevant to this report:

- Vertical coordination, which is the coordination of investment decisions between national and sub-national government and the private sector
- Horizontal coordination, which is coordination within a level of government (either national or sub-national).

Vertical coordination helps to identify and prioritise investment opportunities and bottlenecks, strategically coordinate investments, and ensure that adequate resources and capacity are in place to undertake investments. Addressing the multi-dimensional and global challenges of climate change, urbanisation, and demographic pressures, for example, requires partnerships that align policy objectives and investments at

all levels. While policymakers often recognise the advantages of vertical coordination, it can be difficult to put into practice. Vertical coordination can be achieved through dialogue and by ensuring the coherence of infrastructure investment strategies at all levels. Box 3.1 and Box 3.2 include leading examples from OECD countries of initiatives to create vertical coordination.

Horizontal coordination is required so that investment needs are undertaken at the right scale and avoid fragmentation as infrastructure needs and projects often span jurisdictional boundaries. Fragmentation might occur where similar investments are undertaken by neighbouring jurisdictions, unnecessarily duplicating investment. Infrastructure investment coordination and cooperation are difficult, even when actors recognise the need for it. It can be hampered by transaction costs, competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided (OECD, 2019[3]) (OECD, 2014[2]).

Box 3.1. Vertical coordination of public investments across numerous countries

Canada

The Canadian Regional Development Agencies (CRDA) develop place-based regional growth strategies with an all-of-government approach (federal/provincial/territorial), which aims to achieve long-term prosperity by collaborating on targeted, evidence-based actions around a common vision. The development of the strategies has involved a high level of engagement with stakeholders in the form of round tables to validate the priorities and targeted actions or broad consultation processes, among others. The consultation involves businesses, academia, Indigenous peoples, communities and other organisations as well as different levels of government.

Italy

Italy's Strategy for Inner areas is an integrated strategy tailored to different places with the aim of reducing demographic decline and land abandonment in many rural areas, by improving the quality of essential services – education, health and mobility – and promoting the opportunities for economic activity and jobs. The strategy is pursued through (i) the identification in each project-area of an alliance of municipalities willing and capable of working together; (ii) the promotion of a results-oriented strategy through a participatory approach; (iii) the definition of a set of integrated projects and their expected outcomes, through enhanced co-ordination across sectoral administrations and sub-national governments.

Netherlands

The Netherlands has implemented the Dutch Multi-Year Programme for Infrastructure, Spatial Planning and Transport (MIRT), which is a Consultation Committee that discusses projects and programmes involving the physical domain. Different ministries and regional partners may participate or launch MIRT programmes. Within the MIRT programme, all parties collaborate on projects regarding infrastructure and water, in the areas of quality of life, accessibility, and mobility in a clean, safe and sustainable environment. The MIRT Consultation Committee, with the regional agendas as their strategic compass, makes agreements on MIRT areas of work.

Portugal

The Territorial Co-ordination Council in Portugal is the political body to promote consultation and concertation between the Government and the different political institutions, at regional and local levels. Portugal has also recreated the High Council for Public Works as a technical advisory body for the Central Governments on infrastructure investments in which are represented, among other entities, the Metropolitan Areas, the Territorial Coordination Council, and the Municipalities National Associations.

Source: (OECD, 2019[3])

Box 3.2. Vertical integration in the form of conferences for cross-government dialogue (Italy)

The main institutional mechanisms to promote dialogue across the different levels of government in Italy are the so-called "conferences". Firstly, the Conference of State-Regions (inaugurated in 1988) comprises of the Prime Minister (or the Minister of Regional Affairs), who acts as the President of the Conference; the presidents of the regions and other ministers whenever matters related to areas of their competence are discussed. The central government consults the conference regarding all legislative initiatives related to areas of regional interest. Regional governments play a key role in this platform and in the process of institutional innovation, especially relating to the transfer of functions from the centre to the regions and local authorities.

The second conference is the Conference of State-Municipalities and other local authorities (created in 1996). It consists of the Prime Minister - as President of the Conference - the Minister of Interior, the Minister of Regional Affairs, the Minister of Treasury, the Minister of Finance, the Minister of Public Works, the Minister of Health, the President of the Association of Italian Municipalities (ANCI), the President of the Association of the Italian Provinces (UPI) and the President of the Association of Italian Mountain Communities (UNCEM), along with 14 mayors and 6 presidents of provinces. The conference carries out the following two functions: i) co-ordination of the relations between state and local authorities; and ii) study and discussion on issues pertaining to local authorities.

Finally, the Unified Conference of State-Regions-Municipalities and other local authorities (in place since 1997) is the institutional body set up to manage relations between the central government, regional and local authorities. It includes all the members of the two above mentioned conferences. It is consulted on activities that involve shared competencies across levels of government. In particular, the Unified Conference advises the central government on financial law and decrees concerning the allocation of personnel and financial resources to regional and local authorities.

Source: (OECD, 2020[4])

For public investment in infrastructure specifically, vertical and horizontal coordination is important for the following reasons:

- To maximise the benefits from infrastructure investment, infrastructure providers need to coordinate the location and capacity of transport routes with urban planning decisions and the placement of social infrastructure like schools and hospitals. Without coordination, there is a risk of unintended spill over effects like congestion bottlenecks
- Inter-municipal cooperation allows local governments to invest at the right scale, reduce fragmentation and duplication of investment, take advantage of spill over effects and enjoy more resources for their investment projects (OECD, 2014[2]).
- The sequencing of infrastructure pipelines across portfolios ensures that the public sector does not ‘flood the market’ with infrastructure projects, creating construction cost inflation
- A coordinated pipeline can be sequenced in a way that matches the cyclical nature of construction, increasing demand for construction services during downtimes and easing off in high times
- Reaching an efficient scale and viability for infrastructure investments, such as by bundling programmes of projects that span sectors and municipalities, can attract larger scale private operators who may bring new efficiencies to the local infrastructure market
- More efficient maintenance practices, such as opening up network corridors for repairs and maintenance on all utilities once, rather than repeatedly opening up network corridors to main different infrastructure types
- Opportunities to gain new skills and more innovative practices from a wider and more diverse range of infrastructure providers.

Box 3.3. Horizontal integration at the sub-national levels of government in Spain

The regional government of Galicia has encouraged economies of scale by improving the flexibility of voluntary intermunicipal co-ordination arrangements while providing financial incentives to encourage them. Investment projects that involve several municipalities get priority for regional funds. Local co-operation is also being encouraged in the urban mobility plan for public transport, involving the seven largest cities in the region. The regional government also created the Metropolitan Area of Vigo, an association of 14 municipalities. Although the metropolitan area was defined by the regional government, it was based on a history of "light co-operation" among 12 municipalities (out of 14).

Source: ((OECD 28th Territorial Development Policy Committee, 2012[5])

Box 3.3 shows a good example of horizontal integration at the sub-national levels of government in Spain.

There are several tools that enable coordination, which are specified in more detail below:

- Coordination of capital budgeting
- Spatial planning
- Sharing of services (vertically and horizontally).

3.1.1. Coordination of capital budgeting

Coordinating the allocation of capital and operational expenditure across investment sectors or projects can present opportunities to achieve greater synergies and efficiencies from a country's investment portfolio. For example, allocating expenditure to housing and transport investments in a coordinated manner ensures the location of houses can also benefit from being near efficient transport services. For citizens, this offers more attractive housing options that have greater access to employment and other services; for governments, it enables them to capture greater value from their investment through the form of land value uplift taxes or the generation of revenue from land sales.

Coordinated capital budgeting also ensures that projects can be delivered as efficiently as possible, by avoiding any unforeseen negative impacts of one investment over another, which may result in the need to do rework or inhibit the ability for these investments to deliver at their maximum levels of service.

Reviewing and approving all investment decisions at ministerial decision-making committees, such as Bulgaria's Council of Ministers, is an important way of ensuring a degree of coordination between capital investment decisions. But there is value in countries coordinating their investment decisions at the conception stage, to ensure that synergies and efficiencies are built into the design of investments as early as possible.

This requires public entities from different line ministries and/or municipalities to work together in developing investment proposals that derive greater synergies and efficiencies. This ensures that officials can present proposals for the allocation of capital and operational expenditure that funds a coordinated project design, construction and maintenance plan.

3.1.2. Spatial planning

A common method for coordinating infrastructure and land use decisions is through spatial planning. Spatial plans help establish agreement amongst diverse stakeholders on how policies can be expressed for a defined spatial area through the development of infrastructure and the use of land and other

resources. Stakeholders commonly involved in spatial planning include national and sub-national governments, private sector, communities, indigenous peoples and other interested parties.

Spatial plans are most effective as coordination mechanisms when they take account of all infrastructure delivered at the national, sub-national governments and the private sector. This ensures that infrastructure providers are coordinated and have a joint understanding of the current and future infrastructure needs.

High quality spatial plans are informed by a strategic vision and robust data such as population forecasts, future spatial distribution of people, biodiversity and ecology, economic activity forecasts and the identification of sites of social significance.

Spatial planning can give infrastructure providers a greater certainty over the future location and timing of infrastructure, which helps send positive investment signals. Spatial plans can also protect existing and new infrastructure from future legal challenge or competing uses of land. Spatial plans often signal new corridors or zones for infrastructure development while projects are still in the conceptual phase.

Spatial planning also gives stakeholders a better opportunity to participate in planning processes, by being involved at an earlier stage, allowing stakeholders to have a greater influence over the future direction of a spatial area. This is described in more detail in the *Section 8: Integrating Stakeholder Engagement into Planning and Decision-making Processes* below.

3.1.3. Sharing of services (vertically and horizontally)

For the purposes of this report, the sharing of services (vertically and horizontally) includes cooperation between infrastructure providers at any level of government in order to deliver greater economies of scope and scale. Sharing of services could take various forms, from informal arrangements such as sharing of best practices, through to formal arrangements, such as memoranda of understanding and the collective contracting of services.

Sharing services can help national and sub-national governments deliver infrastructure more efficiently and effectively in the following ways:

- Achieving the right economies of scale – certain goods and services, such as replicable engineering skills or the procurement of bulk materials, can be accessed more quickly and cost-efficiently by a larger purchaser than by many, smaller purchasers
- Achieving the right economies of scope – larger entities are more likely to have the resources to recruit or contract-in highly skilled professionals, who may bring more innovative, effective and efficient practices in design, construction and asset management. Larger entities may also have the means to procure a wider scope of goods and materials, which could make their infrastructure practices more effective and efficient.

Sharing of services can be particularly beneficial for infrastructure services where the goods and services provided are replicable. For example, efficient and effective roading services can be delivered at scale because the inputs are standardised. For example, traffic engineering skills are largely replicable and the construction materials are widely applicable to all road types.

But the benefits of sharing services need to be balanced against the need to retain the input of local communities in decisions about public investments. It is generally best practice that decision-making is made at the most immediate or local level. Local decision-making can become lost if the entities responsible for delivering local infrastructure and services become too far removed from the communities they serve. For example, the placement of local amenities like public parks or social housing are matters that are very sensitive to local areas, and therefore need to be designed with close involvement from the community.

While a balance between centralisation and localism needs to be struck, countries that are resource-constrained and struggle to retain and attract necessary skills and capabilities benefit from focusing on improving their economies of scope and scale through greater sharing of services. There are a range of models by which national and sub-national governments can share services, which all have different benefits, costs and risks so need to be assessed against the unique circumstances of the government or sub-national government in question. One model is for agencies and municipalities to contract suppliers to service their collective geographic or functional areas. A second model is to establish utilities companies that deliver specialised services, but decisions about planning and investment are made by representatives from across the relevant line agencies and municipalities. A third model is to amalgamate line agencies and municipalities, whereby all planning, investment, delivery, human resources functions and their associated overheads are merged into the operations of either one or a small number of entities.

3.2. What is the quality of Bulgaria's coordination across sectors and between levels of government?

Like in many countries, Bulgaria's multi-tiered governance can make it challenging to coordinate public investments horizontally and vertically. To coordinate public investment and other matters at the regional level, the 1999 Regional Development Act established six planning regions, or NUTS 2 statistical regions. Despite several regional development responsibilities, the planning regions mainly act as consultative bodies and "conduits" for regional planning and EU funds programming but have limited powers. They do not have an administrative status and, therefore, they do not have the human and financial resources to carry out their functions. Similarly, they suffer from a lack of representativeness and legitimacy (OECD, 2021[6]).

Overall, Bulgaria has a good framework for spatial planning, with room for improvement, and has good examples of sharing services at the municipal level. However, Bulgaria's current capital budgeting processes undermine the country's ability to coordinate its public investments further. These points are covered in more detail below.

3.2.1. Coordination of capital budgeting

Capital investments in theory, need to be consistent with sector development strategies. The process of capital budgeting under the Public Finance Act is undertaken by each line ministry and constrained by the capital allowance allocated to each line ministry in the annual medium term budget forecasts (MTBF), administered by the Ministry of Finance. Capital allowances are guided by criteria set by each line ministry, which differ between portfolios. MTBFs and programme budgets capture a capital investment's objectives and key performance indicators. The Ministry of Finance also requires public budgeting authorities to submit quarterly updates on investments valued over BGN 50 million (EUR 25 million) as part of financial monitoring.

At the local level, Bulgaria's 265 municipal councils have full autonomy to make their own investment decisions where capital is raised from their own sources, such as local taxes, which make up approximately 20 – 30% of their total revenues. They also have full autonomy to decide whether to coordinate with neighbouring municipalities. In addition, municipalities receive transfers from the state budget for capital expenditure each year, which account for around 70 – 80% of their total revenues. These transfers are calculated for each municipality by evaluating each municipality's taxation capacity. While the national government allocates portions of these subsidies to specific infrastructure, such as kindergartens, nurseries, schools, social housing and museums, there is another portion of capital subsidy that municipalities can allocate according to their own priorities. Nevertheless, "municipal investment is relatively small and fragmented, which limits the emergence of strategic projects with positive spill overs

across jurisdictions due to the lack of regional coordination and inter-municipal coordination". (OECD, 2021[6])

Line ministries develop their own public investment programmes without being required, or incentivised, to consult with other line ministries. The Ministry of Finance is concerned only with each Primary Budget Authority (PBA) operating within the agreed budgetary allocation and it does not require line ministries to explain how, if at all, they are coordinating their investment programmes with other line ministries. This disjointed approach to funding is having an impact on the ground: municipalities described how having to apply for funding for infrastructure from multiple funding sources is creating inefficiencies. For example, a municipality may get funding to upgrade a road, but does not have funding to also improve the water infrastructure that runs beneath the road. If, in this example, the funding decisions about the roading and water infrastructure could be made at the same time, municipalities would only need to undertake earthworks once, thereby being more efficient with time and public resources.

While OECD countries have different approaches to managing capital budgets, good practice requires the implementation of a national framework for supporting public investment, including an adequate institutional capacity and a stable legal, regulatory and administrative framework. In 2019, most countries reported that line ministries were mainly responsible for evaluating infrastructure needs (77%), deciding the delivery mode (59%), monitoring project execution (63%), as well as prioritising and approving infrastructure projects (48%). However, a significant number also identified the Central Budget Authority as a key player, particularly for project prioritisation (30%) and approval (41%) (OECD, 2019[7]).

As noted in *Section 6: Capital Budgeting and Fiscal Sustainability*, Bulgaria's approach to capital budgeting is highly decentralised, which can result in a lost opportunity to capture efficiencies and synergies through a more coordinated approach. For example, there is no centralized mechanism to prioritize or choose specific solutions to challenges that cut across several ministerial portfolios. The guiding principle is that the individual ministries are best placed to develop policies in their area of competence. While this is a sound assumption, line ministries should be encouraged to coordinate their capital projects where necessary. For example, Ireland's *Public Spending Code - A Guide to Evaluating, Planning and Managing Public Investment* (Department of Public Expenditure and Reform, Ireland, 2019[8]) requires managing authorities to consider the impact of a proposed project (including unintended consequences); it also requires an economic appraisal which takes account of the level of deadweight and displacement that may occur. This Code, therefore, requires line ministries to take account of all possible considerations, which will ensure that other line ministries are consulted. In Slovakia, the MoF keeps a register of every investment included in the state budget and separate modules, the Register of Investments. This is used for budgeting capital expenditures in the budget information system. This provides basic financial and non-financial information about the investment (name, status, type, schedule, costs, budgeted expenditures etc.) for monitoring and evaluation purposes.

3.2.2. Spatial planning

Bulgaria lacks place-based planning, which is one reason why the country has low levels of regional development and inter- and intra-regional disparities. One of the reasons for a lack of place-based planning is because there is no robust regional governance structure to enable this. Each district, made up of municipalities, contains a deliberative organ, the district development council (DDC), whose main responsibility is regional development. However, in practice, DDCs do not have sufficient authority, human capital and financial resources to carry out their mandated responsibilities.

Place-based policies can address the diversity of economic, social, demographic, institutional and geographic conditions across regions by targeting specific territories and providing tools to address issues like economic and social stagnation that traditional structural policies often fail to remedy. They also promote an integrated approach across sectors ensuring that a wide range of sectoral policies, from

transport and education to innovation and health, are co-ordinated with each other and meet the specific needs of different regions – from remote rural areas to the largest cities. ((OECD, 2019[9]) ((OECD, 2021[6])

To better coordinate at the municipal level, regional associations of municipalities were formed to assist each other in solving common regional issues, such as rendering assistance in a broad range of consultancy services. Today, there are around ten active regional associations in Bulgaria, one example being the Association of Danube River Municipalities, which brings together 35 municipalities with a combined population of over 800 000 inhabitants along the Danube River in the central part of the Danube region. The main objective to promote the social and economic development of the Danube region and establish a common concept and strategy of regional development, furthering the joint implementation of socio-economic policies, enhancing co-operation with all the stakeholders in the sub-region and developing a common regional identity (Ministry of Regional Development and Public Works, 2016[10])

As noted above, spatial planning is an important tool is helping coordinate investments, which informs place-based decision-making. According to the Ministry of Regional Development and Public Works (MRDPW), spatial plans in Bulgaria specify the spatial development and construction and settlement formations within specific geographic areas. The details set out in spatial plans are "… binding for investment design" (Ministry of Regional Development and Public Works, Bulgaria, 2022[11]). The Minister of Regional Development and Public Works is responsible for implementing state policy regarding spatial plans and coordinates the activities of national and sub-national governments. The Minister has authority to approve spatial plans and infrastructure that span multiple regions or that include infrastructure of national significance, including national roads and rail lines. The Minister can also approve spatial plans for underwater linear objects and measures to protect against landslides and soil erosion.

Infrastructure of national significance, as defined by law, must be given regard to within spatial plans. MRDPW is responsible for ensuring spatial plans are legally compliant. This helps ensure that all public infrastructure investments, either national or municipal, within a defined geographic area are planned from a whole-of-network perspective, ensuring that interdependencies between infrastructures are taken in to account and benefits across investment are maximised.

The Regional Development Act sets out the hierarchy of spatial planning in Bulgaria is as follows:

- The National Spatial Development Concept (NSDC) - sets the long-term objectives and priorities at the national level, considering relevant strategic-setting documents at the international and national levels and focuses on nationally significant infrastructure corridors and sites and the integration with EU-wide transport and energy networks. The NSDC directs subordinate spatial plans.
- Integrated Territorial Development Strategies (ITSD) - sets spatial objectives and priorities at a regional level. ITSDs include an indicative list of priority projects at the regional level, including budget estimates and indicative timings for delivery, including for infrastructure sites and corridors. ITSDs are developed for a period of seven years, except for technical infrastructure specifications, which are planned for up to 30 years for Level 2 Planning Regions. The NDSC is subject to ex-post evaluation of its implementation.
- Municipal integrated development plans – define the medium-term objectives and priorities for a given municipality, including any links to neighbouring municipalities in accordance with the relevant ITSD and municipal master plans.

Under the Spatial Development Act, which is a different statute governing land use planning, there are two types of spatial plans:

- General Spatial Development Plans (GSDP) – provide a basis for the overall planning for the future development of a given territory, by specifying the use of infrastructure and the protection of environmental, cultural and historical sites. GSDPs must be coordinated with the Ministry of Culture regarding cultural heritage sites and buildings, and the Ministry of Environment and Water

regarding the environmental impact assessment processes. GSDPs can be directed by either a minister at the national level or a mayor at the municipal level. Subject to public consultation once drafted, GSDPs must be coordinated with national and territorial administrations, utility companies and other interested parties and are approved by MRDPW. The decision to approve a GSDP can be appealed only by parties directly affected by its proposals, such as property owners. Currently, 183 of Bulgaria's 265 municipalities have GSDPs. Despite signalling the use of future infrastructure, GSDPs do not grant authority to build new infrastructure.

- Detailed Spatial Development Plan (DSDP) – outlining policies, rules and requirements applied to the use of specific lots of land for the purposes of development. DSDPs are subject to public consultation processes, which can be appealed by affected property owners.

NSDCs and ITSDs are formally adopted by the Council of Ministers following consultation with relevant ministries and the public. ITSDs also need to be adopted by regional development councils. This suggests there is buy-in to the priorities and commitments made in the planning hierarchy at the highest levels of government. However, NSDCs and ITSDs can be amended under particular circumstances, such as:

- "In case of change of the administrative-territorial structure of the Republic of Bulgaria, which affects the areas in the respective planning region as well as changes in the territorial scope of the planning region;
- In event of update of the NSDC;
- Upon recommendation of the adopted reports for monitoring the implementation of the ITSDs;
- In event of significant changes in the economic and social conditions in the relevant planning region, as well as substantial changes in regional policy requiring corresponding changes in the strategic framework for territorial development of a planning region;
- As a result of changes in the related national legislation or in European Union law;
- When adopting, modifying or updating sectoral strategic documents at national or regional level, to which the priorities or indicative lists of important project ideas of the ITSDs are related;
- In case of changes in the environment and priorities for development of local authorities, on the proposal of more than half of the members with voting rights of the respective regional development council;
- In case of exceptional circumstances (Republic of Bulgaria, n.d.[12])."

Changes to GSDPs must be presented by the mayor to their respective municipalities as part of preparing an annual report on the GSDP in question.

It is important that changes to any form of spatial plan are infrequent because regular amendment can undermine the planning certainty that spatial plans are meant to provide to communities, businesses and investors. However, it is also important to allow some flexibility to allow reasonable changes to be made in the event of unforeseen circumstances. We understand changes to NSDCs, ITSDs, GSDPs and DSDPs are rare, which suggests the circumstances under which amendments can be made to spatial and development plans strikes an appropriate balance.

At the territorial level, individual municipalities have authority to determine their own spatial planning policies and plans that relate to their own geographic areas. However, they must also produce integrated development plans, which flow from NSDCs and ITSDs, defining the medium-term objectives and priorities for the municipal area, identify any links with the municipality's existing strategic documents or with those of neighbouring municipalities.

The current NSDC is set for the period 2013 – 25 and identifies the need to address the following national infrastructure deficits:

- Delays in the optimal connection of the national territory with the neighbouring countries … [including] … delays in the construction of the TEN-T network ….
- Delays in the optimal transport connection between the weak northern Bulgaria and the stronger southern Bulgaria.
- The need to build efficient transport, engineering, tourism and cultural infrastructure …."

Since at least 2020, Bulgaria has committed to taking a more holistic, integrated approach to spatial planning. ITSDs are increasingly focused on supporting territories and how territorial investments can better integrate rather than focusing on individual settlements and sector-specific investments. ITSDs are also incorporating the mapping of needs at the national level regarding the sectoral policies prepared by the state institutions and agencies responsible for their development. This is a positive development, because it shows that Bulgaria is developing a more holistic, integrated approach to spatial planning, which will help coordinate investments and capture new efficiencies and synergies from those investments.

MRDPW is designated as the lead authority for developing Priority Nine of Bulgaria2030, which is focused on lifting local development, particularly regarding the wellbeing of people in rural communities, the competitiveness of regions, resilience from natural hazards such as landslides and improving water quality. Ensuring the Ministry has responsibility for delivering priorities under the highest-level strategic document helps ensure that its objectives are reflected in territorial-level planning instruments, such as spatial plans, increasing the likelihood that Bulgaria2030 will have a real impact on people.

However, the process of acquiring land often proves to be time-consuming and creates uncertainty for those involved. The acquisition of state, municipal or private land takes place once spatial plans are approved and before construction permits are issued. Due to the complex administrative processes in place for acquiring land in Bulgaria, acquiring land can often take up to two years.

Furthermore, a lack of coordination between different sectoral policies and an uncertain funding environment presents problems for doing spatial planning more effectively. As noted above, this highlights the need for decisions about allocation of capital and operational expenditure to be coordinated with how the use of land is planned, so that funding decisions can be backed-up by planning decisions reflected in spatial plans. Spatial plans deliver greater planning certainty if they are supported, at least indicatively, by funding decisions.

Municipalities developing spatial plans are required to coordinate with selected ministries, but this only happens with respect to limited factors, such as compliance with environmental and cultural heritage requirements. Wider coordination only occurs once a first draft of a spatial plan has been developed, by which time the opportunity to truly co-develop the spatial plan has passed. This suggests there is a missed opportunity in Bulgaria to involve early the key decision-makers on public investment, infrastructure and land use, thereby capturing the benefits of coordination described above.

Spatial plans are generally subject to public consultation, which often leads to disputes or delays due to parties opposing particular proposals. This is a common occurrence with spatial planning and reflects the balance that needs to be struck between top-down decision-making that delivers certainty with the need to include the perspectives of local people.

Municipalities described how the Spatial Development Act, which governs the rules and requirements for spatial planning across all levels of government, is regularly amended to address new, emerging issues. Regular changes to the legislation are likely to undermine the value of spatial planning, which is to deliver long-term certainty on the location and timing for public investments against a clear, consistent and enduring criteria. EU rules attempt to bring certainty by requiring that Commission-funded infrastructure and services stated in spatial plans are committed to for at least a five-year period. Municipalities described how this can also result in inflexibility in times of unexpected change, such as a current need for new social housing for refugees fleeing Ukraine. However, overall, the five-year requirement is a good incentive to discourage frequent changes to spatial plans.

DSDPs protect existing and future infrastructure, which helps provide certainty to current infrastructure providers and citizens about the operating life of current assets. However, few municipalities have managed to introduce DSDPs because of difficulties obtaining the necessary support from communities.

Spatial plans in Bulgaria include an ecological assessment, which is an important feature of spatial planning because it identifies any significant ecological issues early on, which helps avoid any 'showstoppers' during the environmental impact assessment phase.

3.2.3. Sharing of services (vertically and horizontally)

There are existing examples in Bulgaria of the sharing of services between municipalities, but it is not widely accepted and practised in Bulgaria. There are few examples of effective inter-municipal co-operation initiatives, except where it is legally mandated, as is the case for the provision of water, sewerage, and waste management (OECD, 2021[6]). In 2000, despite the existence of an EU funding opportunity and the poor situation in numerous municipalities in terms of waste management, most Bulgarian local authorities rejected participation in regional waste management associations. The national government then made it mandatory in 2010 to fulfil the commitments made to the EU for the National Waste Management Programme. A municipality that rejects participation, causing delays or thwarting the creation or functioning of a regional association, shall cover the damages and missed benefits of the remaining municipalities in the region (Kalfova, 2017[13]).

Another example comes from the Waters Act 2000, which imposed the creation of water and sanitation associations for each district. The participation of municipalities is not obligatory, but the main incentive for them to participate has been EU funding, as only water and sanitation associations were eligible for funding in the 2014-20 programme period. By 2021, 29 regional water and sanitation companies had been established (OECD, 2021[6]).

However, there are still reluctant municipalities. For example, in 2010, 15 municipalities refused to join the water and sanitation associations due to financial considerations, despite water and sanitation costs for municipalities in the mountainous area being below the average under the association model (Kalfova, 2017[13]).

Despite this, there are several anecdotal examples of inter-municipal cooperation contributing to better investment outcomes. For example, there is an agreement amongst several municipalities near Sofia for the construction of a waste landfill. The municipalities agreed to enter a formal arrangement of inter-municipal cooperation because it was an opportunity to learn from one municipality which had experience in building a similar waste landfill. This initiative has led to a better quality of service and better control over the company operating the landfill. In another example, one municipality created a company to provide maintenance services across transport, water services and waste management. In the 10 years that the company has been operating, costs had been reduced by two or three times what they had previously been when individual suppliers were appointed to offer transport, water services and waste management independently. Another example came from the water services sector, where several companies employed by multiple municipalities have formed an agreement to reconstruct a local water supply network, which reportedly has led to better service quality outcomes.

There seems to be general support among officials for more inter-municipal cooperation in the future, recognising they provide opportunities to share expertise. But any future attempts for inter-departmental cooperation at the national level requires coordination amongst the Council of Ministers.

Some rules and regulations limit what infrastructure and services can be jointly managed at the municipal level, which presents a barrier to future inter-municipal cooperation. Municipalities also described how additional incentives would be needed to encourage more inter-municipal cooperation. Public entities at both the national and sub-national levels should identify where these barriers exist, and reform these requirements to remove any future barriers.

There have previously been discussions at a political level to amalgamate a number of Bulgaria's 265 municipalities, which were resisted due to concerns about losing local accountability and decision-making. But as noted above, there are various institutional models that can deliver the benefits of inter-municipal cooperation aside from amalgamation. The OECD has previously recommended that Bulgaria establishes effective multi-level governance coordination mechanisms. Creating a culture of cooperation and regular communication is essential to achieve effective multi-level governance and long-term reform (OECD, 2021[6]). Bulgarian municipalities could explore the other models of inter-municipal cooperation described above that allow municipalities to retain their existing governance and ownership arrangements. This way, municipalities can still seek to achieve the economies of scope and scale needed to retain staff with the necessary skills and experiences, bundle projects at a scale that will be more appealing to a wider infrastructure market, present a sequenced pipeline to the labour market and provide services and materials, such as the replicable engineering skills and provision of aggregates, at a larger scale.

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4 Project selection, prioritisation and appraisal processes

Robust processes for selecting public investments are essential for countries to demonstrate to citizens that public resources are being allocated to the highest priority needs. This is critical at a time when countries must invest in low-emission and resilient infrastructure at an unprecedented pace and scale, within tight fiscal constraints. This chapter outlines best practice approaches for identifying projects that deliver the greatest outcomes while being efficient and affordable, and describes the processes followed by ministries and municipalities in Bulgaria.

The OECD Recommendation states that fiscal sustainability, affordability, and value for money are best achieved, in part, through:

> *"applying rigorous project appraisal and selection processes that pays due consideration to social and economic efficiency at the national and subnational levels (taking into account economic, social, fiscal, environmental and climate-related costs and benefits) and takes into account the full cycle of the asset, noting that for projects that exceed a high investment threshold it is especially important to provide a transparent, independent and impartial expert assessment to test project costing, fiscal sustainability, time planning, risk management and governance"*
> *(OECD, 2020[1])*

4.1. Why is having quality project selection, prioritisation and appraisal processes important?

The systematic process of calculating the benefits and costs of policy options and projects is an essential step in the policy process. It helps decision makers have a clear picture of how society would fare under a range of policy options. This is particularly the case for the development and operation of infrastructure, which can be an important lever in delivering public outcomes and can determine the quality of people's lives, including how and where the live, over many decades.

Project selection methodologies are about organising in a logical and methodical way information about a project and its impacts, while reducing the uncertainty that would otherwise exist around benefit estimates. Without these, decision-makers would be left to rely on their own intuitions and prejudices. Robust project selection methodologies ensure decision-makers can demonstrate that they have thought through the problems they are trying to solve, the benefits they are trying to achieve, the full range of options at their disposal, their plan for managing risks and all possible funding streams. A project selection process, captured in writing, can also provide an important public record to support why a particular decision was made.

While robust project selection methodologies should be applied to all public investments, they must be right sized for the scale and risk of the project while still meeting all relevant, globally adopted standards. For example, the level of analysis required will be different between a EUR 100 000 municipal water treatment plant upgrade project with few new environmental or social impacts and a EUR 1 billion multi-regional transport project with complex engineering and environmental risks which affect many stakeholders. A systematic method doesn't necessarily need to be complex, detailed or expensive. Even a high-level calculation can be logical and methodical.

Cost benefit analysis (CBA) is the standard tool for assessing project worthiness by gathering information about the following:

- Whether people's wellbeing, welfare or utility, would be higher under a future scenario than the status quo
- Whether people are willing to pay for a benefit and accept compensation for a cost
- When the sum of all individuals' benefits and costs are aggregated, whether the collective social benefit outweighs the social cost
- Whether beneficiaries can hypothetically compensate the losers from a change, and have some net gains left over, which indicates that the benefits exceed the costs (OECD, 2018[2]).

While CBA has traditionally been used to monetise the benefits and costs of public investment proposals, it can also include wider economic benefits that are harder to monetise, such as peoples' ability to access community services. CBA also commonly involves discounting benefits and costs to an agreed and consistently applied period, known as social discount rates. Box 4.1 describes how Norway applies a

centrally mandated methodology for assessing projects against economic, social and environmental outcomes.

Box 4.1. Guidance on investment analysis in Norway

In line with best international practice, most transport projects in Norway undergo a thorough assessment of the positive and negative impacts, both directly on transport users but also on the economy and society. The requirements in terms of analytical work are set out in the government's Instructions for Official Studies of Central Government Measures, which apply to all public spending proposals. The Instructions require that central government bodies conduct impact assessments during the development of investment proposals, and economic analyses for measures that are expected to give rise to major benefits or costs. As in most OECD countries, cost-benefit analysis (CBA) is used to rank alternative projects and alternative versions of the same project. In Norway, the CBA guidelines are embodied in a document called "Circular R-109". The guidelines include requirements to account for the wider ramifications of transport projects using supplementary estimates and analysis, including environmental impacts.

In addition, projects with estimated costs in excess of NOK 1 billion (EUR 94.2 million) (threshold of NOK 300 million (EUR 28.2 million) for digitalisation projects) are subject to additional scrutiny via a two-stage quality assurance process. The process includes input from independent reviewers and was initially implemented to combat cost overruns. The process does not apply to the oil and gas sector, state-owned companies with responsibility for their own investments, and the hospital sector.

QA1 focuses on quality assurance of choice of concept. It is conducted prior to the Cabinet selecting projects. The central purpose of this analysis is to check, at a relatively early stage, that the project has undergone a process of "fair and rational" choice. It is conducted by the responsible ministry or government agency and includes investigation of alternative solutions, socio-economic impacts, and relevance of the project to needs. There is an emphasis on environmental and social impacts, land-use implications, and regional development. This evaluation, inter alia, must include a "do-nothing" option ("zero option") and at least two alternative and conceptually different options. The external reviewers' role includes analysis as well as review of documents.

QA2 focuses on quality assurance of the management base and cost. Its purpose is to check the quality of the inputs to decisions, including the cost estimates and uncertainties associated with the project, before it is submitted to Parliament to decide on funding allocation. It includes an assessment of cost estimates derived from basic engineering work and an assessment of at least two alternative contracting strategies. Notably, however, QA2 does not include revisiting and updating the cost-benefit analysis performed in QA1, unless the project seems to have been significantly altered from the option chosen at QA1. In addition, QA2 focuses on project management in the implementation phase.

Source: (OECD, 2017[3])

CBA is required for many facilities and funding schemes operated by the EC, including: the Connecting Europe Facility (CEF); European Structural and Investment Funds; InvestEU; the Recovery and Resilience Facility; the European Strategy Forum on Research Infrastructures; funding allocations from the European Investment Bank and the European Bank for Reconstruction and Development; and in national-level investment decisions (European Commission, 2021[4]).

The EC identified the common features of robust options analysis processes from a sample of around 250 major projects between the years 2014–2020, which serves as a useful checklist when reviewing project selection processes:

- "Is drafted early enough in the project preparation stage (strategic level), continuously verified and adjusted as the preparation advances
- is based on plausible criteria, set preferably by the relevant authorities for the entire sector to enable a level playing field for all projects (e.g. least cost or highest benefit approach)
- these criteria should be formulated in a way that enables selection of the best option among relevant and feasible alternatives
- applies these criteria in a transparent, verifiable and objective manner
- is founded on a plausible demand analysis and based on reliable and verifiable historical demand and reasonable forecast demand
- focuses on proper scoping out and scaling of the project, ensuring the best value for money
- avoids gold plating of investments (i.e. the inclusion of physical elements and related expenditure that is not necessary to achieve the project objectives)
- includes a technological option analysis, particularly in sectors where technology is relevant for selection of the final option (water, wastewater, waste treatment, research and development and productive investments) or where technology has a major impact on cost (transport)." (European Commission, 2021[4])

CBA can be complemented by other tools that help the project selection process. Examples include multi-criteria analysis, which applies the preferences of selected parties to a weighted criteria. Intervention logic mapping is another tool that helps define a problem, identifying possible interventions and each of the benefits that would address the identified problems.

4.2. What is the quality of Bulgaria's project selection, prioritisation and appraisal processes?

Project selection tools, such as CBA and MCA, are common in Bulgaria. However, these tools are applied inconsistently at the national and local levels because ministries and municipalities develop their own project selection criteria and methods. This means decision-makers are not able to consistently compare investment proposals across portfolios to ensure they are allocating resources to the highest priorities across society. In addition, the driving criteria behind selecting projects in Bulgaria is 'project readiness', 'urgency' and the capacity to fund projects from year to year – these criteria do not help direct public resources to where they are needed the most.

Regarding the European level, the CBA criteria provided by the EC is commonly referred to by Bulgarian officials in the context of project selection. For cohesion policy-funded investments, the EC's most recent guidance allows a "… flexible and proportional framework …" to be implemented, stating that tools such as CBA, MCA and CEA are "… proposed for voluntary use, based on sector and/or project type and scale …." The EC adds that while CBA is the preferred approach, CBA can be resource-intensive so should be proportionate to the size, importance and risk of the investment (European Commission, 2021[4]).

At the national level, ministries and agencies must prepare what is described as a "CBA" as part of developing an operational plan for a project, but which in practice mostly focuses on addressing the needs identified in Bulgaria2030 rather than being a conventional CBA. The Operational Programme on Transport and Transport Infrastructure (OPTTI) 2014 – 20 programme is more directive, specifying that CBA must be applied to all projects valued above EUR 75 million tagged to the theme of "Promoting sustainable transport and removing bottlenecks in all key network infrastructures". For projects tagged to "Supporting the transition to a low carbon economy in all sectors", the threshold is EUR 50 million (Ministry of Regional Development and Public Works, Bulgaria, 2022[5]). OPPTI includes guidelines for how CBA should be applied. MRDPW also uses other project selection methodologies, such as MCA, when an evaluation

procedure requires it. The Ministry of Finance also provides guidance for ministries when undertaking project selection for investments.

For municipal projects, the Ministry of Finance has developed a draft decree for the Council of Ministers to introduce uniform criteria for evaluating municipal projects funded by state funds. The decree will be considered for adoption by the new government once its appointed. This would be an exceptional case where project proposals are presented by municipalities against a uniform criteria mandated from the centre of government. A consistent criterion is something that national levels of government would welcome municipalities move towards.

Below are three examples of criteria for prioritising investments from three line ministries responsible for allocating funds to public investments. The first example is MRDPW's criteria for assessing roading projects:

- "Relevance to strategic objectives set out in strategic documents at the national, sectoral and regional levels
- Potential to lift economic development in a particular area, or is the only link to a particular settlement
- Role in providing connectivity and resilience to a larger network
- Alignment with the strategic objectives of European and/or international institutions
- Relevance to national security
- Congestion volumes
- Return on investment and the ability to mobilise financial resources, such as tolling of freight traffic
- State of urgency
- State of readiness
- *Compliance with estimated budget ceilings [emphasis added]."* (Ministry of Regional Development and Public Works, Bulgaria, 2022[5])

The Ministry of Education and Science's criteria for assessing applications for renovation works for municipal educational buildings is as follows:

- "Eligibility criteria - the applicant has not received Investment Program funding in the past 2 years, outside of emergency or urgent repairs and transitional (from a previous year) construction and repair work completed to complete the required technological sequence of work.
- In cases of emergency and urgent repairs:
- Importance of the renovation for the normal conduct of the educational process and for the protection of the life and health of students and teaching and non-teaching staff;
- Number of students.
- In the case of all other types of repairs:
    - A prescription from the controlling authorities that would lead to the closure of the whole institution or some part that directly concerns the educational process;
    - Need for the requested repair;
    - Type of repair, with priority given to roof leaks or heating, ventilation, air conditioning (HVAC), plumbing and electrical problems;
    - Compliance with the annual thematic priority of the Ministry of Education for creating healthy and quality working and learning conditions;
    - Completed phases (from previous year) of construction and renovation activities to complete the required technological sequence of works
    - Number of students;

- Social and economic benefits of the project/proposal." (Ministry of Education and Science, Bulgaria, n.d.[6])

The Ministry of Finance's criteria for assessing applications from municipalities for capital expenditure from central budget funds includes applying weighted scores to the following criteria:

- "The condition of the current site;
- The proposal's justification, including its expected effects on users and "importance";
- The proposal's objectives, including its contribution to economic development, improving the "living environment" and improving the specific activity or service;
- The capacity for the respective municipalities to manage the project and the identified risks;
- The accuracy of the proposed delivery period;
- "Justification" of the proposal, including whether it has links to other funded projects, its potential for employment
- Previous disbursements of capital expenditure from the central budget from the previous three years;
- Eligibility for EU funding;
- Potential for raising revenue." (Ministry of Finance, Bulgaria, n.d.[7])

While these three criteria lists attempt to measure the impact and benefits of investment proposals, they also include criteria like "urgency", "readiness" and capacity to fund projects from year to year. Criteria like this does not help decision-makers determine whether public resources are being allocated to the highest need. Also, without tight definitions around criteria like "urgency" and "readiness", there are insufficient safeguards against internal bias, corruption and fraud. Prioritising investments on the basis of "urgency" may be acceptable if to prioritise the reinstatement of critical infrastructure after a crisis, such as reinstating a bridge on a critical transport route that has collapsed due to flooding. However, in this case, this meaning of "urgency" must be clearly defined. In addition, while there may be an immediate pressure in a crisis to reinstate the previous infrastructure, a crisis can also be an appropriate opportunity to revisit whether the previous infrastructure is performing at the level it should be, or whether a different investment would deliver greater resilience and other benefits. More frequent and severe storm events and rising sea levels are causing infrastructure providers to revise the levels of resilience needed, which makes it important to review whether previous infrastructure, which may have been suitably resilient in the past, will deliver the necessary level of resilience in the future as climate change unfolds. Box 9 provides a useful demonstration of how the benefits and costs of investment in resilience can be calculated to compare the benefits and costs of a status quo options with a more resilient alternative.

In terms of assessing the quality of how CBA is being applied, in recent times Bulgaria has relied on JASPERS' assessment for major projects.

Even for projects that have received relatively detailed project selection analysis, they are not always following EU best practice. For example, we found an example of a major EU-funded transport project where a multi-criteria assessment was used to select the preferred option. However, this is inconsistent with EU requirements, which state that multi-criteria analysis can be used for shortlisting alternatives, while cost-benefit analysis should always be applied to all shortlisted options (European Commission, 2014[8]).

Regarding EU-funded municipal projects, there is a view among some of the interviewed officials that EU-funded projects do not necessarily go to the highest priorities, which may lead under-resourced municipalities to pursue the sources of funding rather than pursue projects that address the highest needs. Officials described how this is not the case in sectors where there is clear strategic direction from national government, which helps direct EU funds to investments that have high levels of project worthiness. However, many infrastructure sectors do not have clear strategic direction at the national level.

Overall, some public infrastructure providers could be thinking more holistically about the infrastructure solutions available to them. For example, one ministry with a significant infrastructure portfolio raised a tension between delivering green objectives and addressing traffic congestion, suggesting the two were mutually exclusive. However, there are a wide range of infrastructure solutions that could address congestion while also helping Bulgaria meet its green and digital objectives, such as investment in public transport to reduce the use of private vehicles or digital communications to replace the need for vehicle travel. Examples like this show infrastructure providers need to think through the problems they are trying to solve and consider the widest possible set of options, which is what the model described in Box 2.1 and a robust project selection methodology can help infrastructure providers do. To demonstrate the wide range of options available, Box 4.2 gives an example of how the city of Milan, Italy has developed a programme of innovative measures that meet people's transport needs while contributing to carbon reduction targets and avoiding new capital and operational investment.

Box 4.2. Innovative ways of managing demand on infrastructure in Milan, Italy

The City of Milan has introduced innovative ways of reducing demand on its transport network. By focusing on the outcomes that citizens seek from their transport network, and not automatically defaulting to traditional solutions to transport problems, Milan has developed a programme of innovative measures that improve the transport network while contributing to international climate commitments without putting new pressure on capital and operational budgets.

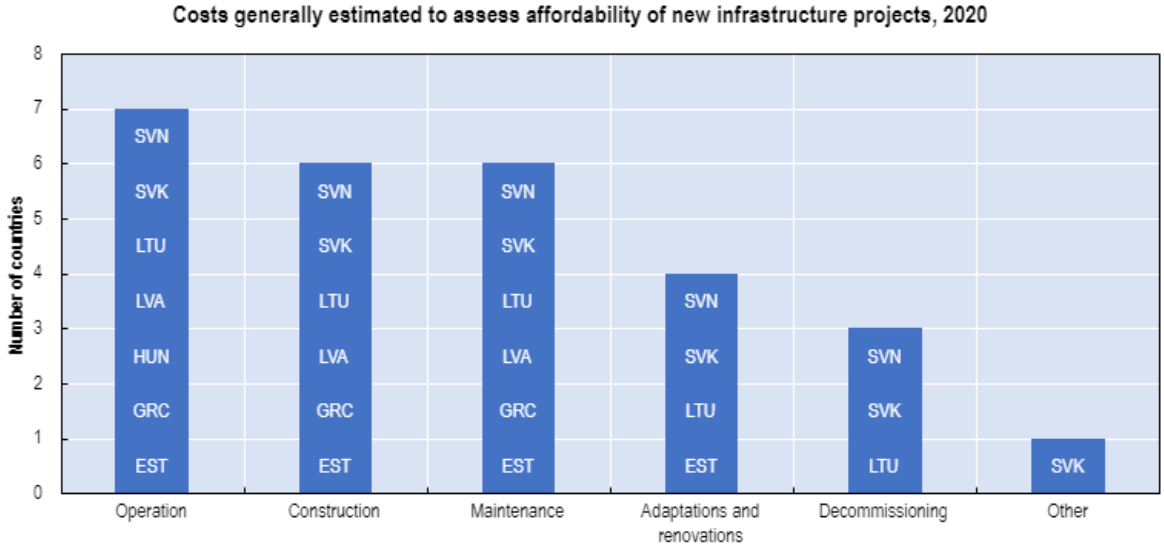
In 2020, Milan launched the Adaptation Strategy, which sets comprehensive demand-side actions to reduce travel demand (e.g. promoting smart and remote work models); improve and diversify mobility options (e.g. promoting bicycles, electric scooters, shared vehicles); increase public transport safety (e.g. limiting the number of people in public buses and subways, reducing crowds at bus stops and train stations with safety distancing); clear sidewalks; integrate public transport with other mobility systems; enhance automation of transport and parking tickets and passes; and to invest in short-term parking spaces (e.g. for delivery of essential goods for healthcare and emergency services).

The Strategy also aims to rethink the timing, timetables and the rhythm of the city, to maximise flexibility and spread the mobility demand over time, encouraging more flexible timetables for schools and workers, and extending opening hours of services and businesses, as well as live cultural performances. It also intends to reclaim public spaces for wellbeing, leisure, and sports, with a gradual reopening of parks and sport facilities.

Source: (Comune di Milano, 2020[9])

To understand the full-long-term benefits and costs of a selected project, it is important to include the full lifecycle costs within the appraisal. Without this information, it is not possible to appraise the project's expected benefits and costs across the full duration of an asset's life. But consideration of lifecycle costings in Bulgaria is rare: the only requirement that exists for lifecycle costs is that, under EU and Bulgarian law, procuring authorities can identify cost effectiveness, including lifecycle costs, amongst other measures, as a reason for selecting a particular contractor (Republic of Bulgaria, 2016[10]). Often, the focus regarding cost during the planning phase is the capital cost (i.e. the cost up until the point that the project is operational). Maintenance costs come from the current expenditure of the responsible agency, which is separate from the capital allocated to delivering specific infrastructure programmes or projects. This means the full lifecycle cost of a project cannot be easily forecast. At the municipal level, some municipalities do forecast maintenance and operational costs of projects when determining capital costs. However, most municipalities in Bulgaria still do not do this. Figure 4.1 shows that estimating costs across the lifecycle is common across many other OECD European countries.

Figure 4.1. Lifecycle costing by selected European OECD countries



Source: (OECD, 2020[11])[1]

All investment proposals in Bulgaria are potentially subject to environmental impact assessments (EIA), to identify potential environmental and human health impacts from the construction and operations of projects while also considering climate mitigation and adaptation considerations. Environmental authorities assess project proposals to determine whether an EIA is needed. EIAs take place before a decision is taken to build a project in a particular location. Pre-investment studies, which includes a technical assessment of different locations of physical assets or routes, consider the terrain, topographical features, climatic manifestations and land use constraints, such as the location of protected areas and development zones. Feasibility studies are also required for projects funded by EU Structural funds only. There are also requirements for projects in Bulgaria to improve access for people with disabilities, to comply with the National Employment Strategy for People with Disabilities 2011 – 2020 and the Convention on the Rights of Persons with Disabilities. New buildings must be audited for their energy efficiency under the Energy Efficiency Act, which can result in the audit recommending alternative packages of measures. EU-funded projects must also meet requirements regarding climate change and comply with the EU's 'Do No Significant Harm' principle (European Commission, 2021[12]) and other environmental considerations as set out in initiatives such as the EU Green Deal, Recovery and Resilience Plan and the Digital Transition objectives.

The Ministry of Finance's guidelines for project selection are generalised, and do not include criteria for including green or digital investments. Criteria of this kind would need to be developed from within the line ministries. Box 4.3 is an example of how Italy has included green considerations into its project selection process.

[1]. Note: Hungary did not reply to the opportunity for their data responses to be validated.

Box 4.3. Italy's innovative reforms to take account of the benefits of green infrastructure

In 2021, Italy's Ministry for Sustainable Infrastructure and Mobility introduced a new criteria for planning and evaluating infrastructural projects, which placed great focus on environmental sustainability, along with economic, social and governance dimensions.

The Ministry introduced a new scoring system that encompasses multiple criteria and aims to prioritise different projects eligible for public funding. The scoring system encompasses four dimensions (economic-finance, social, governance and environment), which are broken down into subdomains with specific components of analysis, indicators, and qualitative information.

The Ministry also designed new guidelines for the ex-ante valuation of projects measuring the environmental impacts, together with operational guidelines specific to the railway, public transports, and road sectors. The new guidance is designed to be consistent with the European Taxonomy Regulation contained in the Delegated Regulation by the EU and the do-no-significant-harm (DNSH) principle.

The Ministry also published new guidelines for the Technical and Economic Feasibility Projects which include a study on the environmental impact of project and a sustainability report.

Source: (OECD, 2020[11])

Geoprotection from natural hazard events, such as landslides, is a significant focus for the national government. Activities in response to natural hazard events are not subject to cost benefit analysis, but instead subject to criteria that consider the number of people affected, size of the affected asset(s), the overall impact of the natural hazard event and project readiness. Based on these criteria, MRDPW allocates funding to municipalities for activities that address resilience. Worldwide, project appraisal tools are used to assess the present and future benefits and costs of resilience projects, such as the reinstatement of infrastructure after landslips. Factors like the frequency of natural hazard events and the costs to people's lives, businesses or access to essential services can be weighed up to help decision-makers consider a wider range of options in response to natural hazard events. For example, cost benefit analysis can be used to decide whether a like-for-like replacement of an asset is the best approach, or whether a solution that will be more resilient over the long-term can generate greater or fewer benefits. Understandably, natural hazard events can happen quickly and there is a need for emergency service operators and infrastructure providers to move quickly to reinstate infrastructure so people's lives can resume. But rather than waiting for natural hazards to strike, project appraisal can be applied to at-risk sites outside of times of emergency, in anticipation of future natural hazard events. Box 4.4 shows a methodology from New Zealand, a country highly exposed to natural hazard risk, for monetising the benefits of resilience.

Box 4.4. Measuring the benefits of resilience in New Zealand

New Zealand is especially prone to events like earthquakes, volcanic activity and extreme weather events causing floods and landslides.

To help identify projects with greater resilience, the New Zealand Transport Agency has developed a methodology for monetising the benefits of resilience. In this methodology, the resilience benefits are estimated against the non-disrupted state. If options are being considered with different levels of resilience, then the value of an option relative to base can be assessed as:

Value of option relative to the base case =

- net change in benefits in non-disrupted state plus
- net change in benefits of resilience

Where:

Net increase in benefits of resilience = Net reduction in expected costs of disruption

- expected costs of disruption under the Base Case minus
- expected costs of disruption under the Option.

For example, flooding causes annual costs of disruption of EUR 1 million along an existing route. An alternative route is being considered that provides transport cost savings valued at EUR 3 million per year. The new route is also subject to some flooding, but the annual cost of disruption is estimated to be EUR 0.4 million. The annual benefits of the alternative route relative to the base case are then estimated as EUR 3.6 million (EUR 3 million plus a EUR 0.6 million reduction in disruption costs).

The methodology also factors in a wider range of costs and impacts, including: user costs (diversion, waiting times; other direct costs (loss of life, injury, repair and reinstatement) and; indirect impacts (wider economic benefits).

Source: (New Zealand Transport Agency, 2020[13])

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5 Capital budgeting and fiscal sustainability

Sound capital budgeting processes ensure that projects can be delivered affordably, while ensuring there are steps in place to manage cost overruns and delays. It is also critical that financial reporting is undertaken in a way that is consistent across sectors, so that the performance of public investments can be compared across sectors. This chapter describes best practice capital budgeting, including examples of medium-term budget forecasting and the management of fiscal risks from leading countries.

The OECD Recommendation of the Council on Budgetary Governance establishes an overview of good practices, which give clear guidance for designing and managing budget systems in an effective manner, to make a positive impact on citizens' lives. The Recommendation sets out ten principles of good budgetary governance in this regard:

> - *"Manage budgets within clear, credible, and predictable limits for fiscal policy.*
> - *Closely align budgets with the medium-term strategic priorities of government.*
> - *Design the capital budgeting framework to meet national development needs in a cost-effective and coherent manner.*
> - *Ensure that budget documents and data are open, transparent, and accessible.*
> - *Provide for an inclusive, participative, and realistic debate on budgetary choices.*
> - *Present a comprehensive, accurate and reliable account of the public finances.*
> - *Actively plan, manage, and monitor budget execution.*
> - *Ensure that performance, evaluation, and value for money are integral to the budget process.*
> - *Identify, assess, and manage prudently longer-term sustainability and other fiscal risks.*
> - *Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit."*
>
> *(OECD, 2015[1])*

The Recommendation states that the capital budgeting framework should be designed to meet national development needs in a cost-effective and coherent manner, through:

- "The grounding of capital investment plans, which by their nature have an impact beyond the annual budget, in objective appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities.
- The prudent assessment of (i) the costs and benefits of such investments; (ii) affordability for users over the long term, considering recurrent costs; (iii) relative priority among various projects; and (iv) overall value for money.
- The evaluation of investment decisions independently of the specific financing mechanism, i.e. whether through traditional capital procurement or a private financing model such as public-private partnership (PPP).
- The development and implementation of a national framework for supporting public investment, which should address a range of factors including: (i) adequate institutional capacity to appraise, procure and manage large capital projects; (ii) a stable legal, administrative, and regulatory framework; (iii) coordination of investment plans among national and sub-national levels of government; (iv) integration of capital budgeting within the overall medium-term fiscal plan of the government." (OECD, 2015[1])

While the third principle directly relates to capital budgeting, it should be borne in mind that all the principles are relevant to capital expenditures, whether it be planning, executing, reporting or evaluation. The principles promote more effective public spending and as capital expenditure makes up a significant proportion of the overall budget, it must be subject to the same rigorous oversight as current or operational expenditure. Since public investment projects extend beyond the annual budget, it follows that they must be aligned with the government's medium-term strategic priorities and managed within an overarching medium-term expenditure framework.

5.1. Why are robust processes for capital budgeting and fiscal sustainability important?

A culture of strong appraisal, performance monitoring and evaluation is not sufficient. Several investment projects may each be justified by cost benefit analysis but there is a limit on the number of investment projects that can be undertaken within the overall budgetary framework and/or without adding to inflationary pressures in the economy. This is specifically recognised by the Recommendation of the Council on the Governance of Infrastructure, which states that an infrastructure governance framework should protect fiscal sustainability, affordability and value for money through a number of criteria including "ensuring that the overall infrastructure investment envelope is sustainable in the medium and long-term, considering the overall debt level and policy objectives, measuring, disclosing and monitoring multi-year spending commitments, including off-balance sheet commitments and contingent liabilities resulting from infrastructure projects" (OECD, 2020[2]).

Insofar as appropriations for capital investment in Bulgaria are allocated within an overarching top-down capital framework, it can be said to comply with the requirement to respect fiscal sustainability and affordability. However, ensuring value for money requires a more in-depth management process than providing a capital envelope in the budget without careful monitoring of expenditures throughout the year. Even if the budget users have the capacities to manage investments, there should be a strong reporting relationship to the Ministry of Finance (MOF) Budget Department so that cost overruns and delays can be tracked in a timely manner and factored into the medium-tern budgetary arithmetic. There should be a standard reporting structure so that reports are consistent, comprehensive and comparable which will enable the MoF to monitor capital expenditures effectively.

5.2. What is the quality of Bulgaria's processes for capital budgeting and fiscal sustainability?

The government's main capital investment priorities are set out in the Governing Programme of the Government of the Republic of Bulgaria 2017-2021, where individual sectoral policies are defined, and specific measures and objectives are set out for the implementation of the programme.

Table 5.1 shows the capital expenditure in the consolidated fiscal programme for the period 2021-2025.

Table 5.1. Capital expenditure in the consolidated fiscal programme of Bulgaria, 2021-2025

	2021 report	2022 Expected outturn	2023 forecast	2024 forecast	2025 forecast
Total expenditure (million BGN)	56 253	63 154	68 014	70 519	71 529
Capital expenditure (million BGN)	3 789	8 207	11 677	11 842	11 249
Capital % of total expenditure	6.7%	13.0%	17.2%	16.8%	15.7%

Source: (Ministry of Finance, Bulgaria, 2021[3])[1]

Capital expenditure includes projects funded by the European Structural and Investment Funds. About 50% of expenditure is funded by the EU, with about three quarters of the remainder coming from central government and the rest from municipal budgets. Co-financing is a precondition for receiving EU financing. The planned expenditure amount is ambitious and significant. For that reason, it should be subject to robust planning, appraisal, selection, monitoring and review procedures. This cycle, therefore, is the basis for the review of capital budgeting.

Capital investments that are co-financed by European Structural and Investment Funds are subject to comprehensive monitoring and reporting requirements. The Management of Resources from the European Funds under Shared Management Act and the Council of Ministers Decree No. 162 of 2016 provide detailed rules for the award of grants under programmes financed by these Funds. While EU-funded expenditures are part of the consolidated fiscal program, the MOF's National Fund Directorate must keep a separate account of these funds for transparency and reporting reasons. The Directorate includes all expenditures into a consolidated account and provides information to the Treasury Directorate and the Budget Directorate. At the same time, MOF monitors major investment projects and it does so using information provided by the managing authorities. If the Ministry has queries, the analysis is carried out by the managing authority.

Where investment projects are not EU co-financed, there is a procedure within the budget process for applying, reviewing, approving, and monitoring the implementation of these projects, financed by state loans or backed by state guarantees. Planning and approval for non-EU financed capital investment is regulated by an ordinance adopted by the Council of Ministers Decree 337/2015.2 This provides the regulatory framework for investment projects financed by state loans and projects applying for financing with a state guarantee, as well as the procedure for their consideration. This ordinance regulates the conditions to be met and the procedures to be followed before investment projects financed by state loans or with a state guarantee can be approved. It provides that, in general, capital expenditure is subject to the same scrutiny that applies to all public expenditure under the Public Finance Act.

The Medium-term Budget Forecasts (MTBF) present the capital expenditures of the Consolidated Fiscal Programme both on a sectoral basis and on an aggregated basis. They also present the capital expenditures by source of funding, namely national budget, and EU-fund accounts. The expenditures are presented also at the aggregated level in terms of capital transfers, gross fixed capital formation and other capital expenditure.

The MTBF includes calculations for capital spending in the upcoming budget year and the following two years. Furthermore, the programme budgets are drafted within the ceilings of the expenditures of the PBAs for the next three years, with capital expenditures being included in these programme budgets. These are, however, indicative, and subject to amendment each year, when it is necessary to provide additional funding for measures/projects complementing the policies conducted. Nevertheless, where capital expenditures are included in a programme budget, the information relating to these expenditures is presented in a three-year perspective, including for those ministries that have significant capital expenditure, such as the Ministry of Transport and Communications; the Ministry of Environment and Water; and MRDPW. For the Ministry of Defence, the Council of Ministers approves the allocation of investment costs over a period of seven years, although this is not published. Box 5.1 includes an example from New Zealand of how capital expenditure allocation has been recently reformed to be on a rolling four-yearly basis to take a longer-term view of capital commitments.

Box 5.1. Structuring budget to enable longer-term planning (New Zealand)

In New Zealand, capital expenditure on public investment in the budget is comprised of two components: an allocation of funds that the government uses to progress priority investments; and investment that occurs from depreciating assets that are already in use.

As with other OECD countries, New Zealand's requirements for public investment extend beyond the annual budget cycle. In 2019, the capital expenditure allocation in the budget was set on a rolling four-year basis, which aligns to the medium-term expenditure framework. The multi-year allocation for capital expenditure allows the government to take a longer-term view of capital commitments. As such, the government can draw on the allocation and manage the impacts on budget spending in any given year.

New Zealand's capital management approach has applied public-private partnerships selectively. They remain a vehicle for public investment, but they rely on the ability to articulate and value the risk of a public investment during each stage of the investment cycle, specifically from design to construction through to the operation of the asset.

Source: (The Treasury (New Zealand), 2022[4])

The annual State Budget Law presents capital expenditures at the level of the total state budget and at the level of the PBAs, as well as capital transfers from the state budget to non-governmental organisations and enterprises. It also shows the planned total transfer for capital expenditures to municipalities and at the individual municipality level. Capital expenditures financed by the state budget are planned under municipal budgets. More detailed information on capital expenditures and transfers by policy area, budget programme and project, including whether the source is national budget or EU funds, is shown in the programme budgets of the PBAs. These programme budgets are part of the budget documentation which, together with the Updated Medium-Term Budget Forecast, are submitted to the National Assembly with the annual state budget law). The Updated Medium-Term Budget Forecast usually contains new and priority investment programmes and projects, for which additional financing is provided, as well as projects with a multi-annual implementation period.

In recent times, highlighted capital measures have included the decision of the National Assembly to approve the acquisition of combat aircraft and combat equipment, and the decision for the introduction of a toll fee to fund the construction of first-class roads and highways. Significant investment projects are also included in the relevant expenditure programmes. This information includes non-financial information and key performance indicators. The threshold of what constitutes a significant impact is set at BGN 1 billion, which is very high. For investment projects below that threshold, certain projects may be highlighted but inclusion is not obligatory. For example, under the Defence and Armed Forces Act 2010, projects with a cost in excess of BGN 50 million must first be approved by the Council of Ministers. In addition, projects with a cost more than BGN 100 million must also receive the approval of the National Assembly.

Capital investment is prioritised according to the need for implementing sectoral development strategies that have been adopted by the Council of Ministers. In approving an investment strategy, the government takes account of the cost of large investment projects within the overarching financial constraint of the fiscal targets. Following on from this, the individual ministries determine the priority projects for financing within the framework of the funds provided by the State Budget Act. The sectoral development strategies include all sources of project funding, such as the state budget, own contribution by beneficiaries, EU co-financed programmes and other donors.

One of the most important criteria as regards the selection of investment projects is their anticipated contribution to achieving "key indicators" target values in the MTBF. Another criterion is the anticipated

feasibility of the project, with projects already in train or in the preparation phase being prioritised to guarantee greater absorption of the available resources. To guard against underspending on capital projects, the PBAs are required to have some reserve projects in place. If reserve projects have not been evaluated and prepared, according to procedures which comply with those of the EU funds, they cannot be funded and consequently some funding sources may go unused.

Managing authorities also are required to assess the conformity of the investment project with the programme and financial framework. The selected investment projects should be appropriate and realistic for implementation; related to the development strategies in the respective sector; and consistent with the priorities, objectives and measures set out in the governance programme, in strategic documents and programmes. In selecting projects, PBAs must demonstrate how the projects correspond to priorities of high-level strategies such as Bulgaria2030 and the action plan for its implementation. Each project should consider the long-term benefits to society or to the targeted sector and the long-term social and/or economic benefits to which the project will contribute. But as noted in Section 3: Long-term Strategic Vision and Planning, it is not clear whether investment decisions are always being directed by Bulgaria2030 or other strategic direction in practice. The ministries and agencies decide about the lowest level of investment; there is no centralized mechanism on how to prioritize or choose specific solutions to the challenges that cut across several ministerial portfolios. Box 5.2 includes an example from the Slovak Republic of how capital expenditure is integrated in the budget process, how it is monitored and how the role of the Ministry of Finance is central to the monitoring process.

Box 5.2. The role of the Ministry of Finance in capital budgeting in the Slovak Republic

Capital expenditure in the Slovak Republic is well integrated in the budget process. Line ministries submit proposals based on their individual priorities and they are negotiated with the Ministry of Finance together with current expenditure. As one of the binding indicators that determine legislative approval, limits on capital spending for every line ministry are decided within the budgeting process. The integration between current and capital expenditure aims to improve budget planning, facilitate coordination and increase flexibility.

Under the Slovak budget process, requests from line ministries for capital funding include for the entire cost of a multi-year project. Carry-overs for capital are allowed within the period of two years. There is a register of every investment included in the state budget and separate modules, Register of Investments, for budgeting capital expenditures in the budget information system. This information system provides basic financial and non-financial information about the investment (name, current status, type, schedule, costs, budgeted expenditures etc.) for monitoring and evaluation purposes.

In 2016, the government reformed the process of evaluating significant investments. Slovakia has defined a methodological framework for the process and preparation of large investment projects and their evaluation according to the principles of value for money. This means that, for investment projects with a cost of more than EUR 40 million (and IT projects from EUR 10 million), following a feasibility study by the relevant Ministry, the Ministry of Finance is obliged to prepare and publish an evaluation. The evaluation provides recommendations of alternatives, cost-benefit-analysis and input values. Such systematic investment assessments are essential to help ensure that the projects are developed in a manner that is cost efficient, affordable, and trusted by users and citizens.

Source: (OECD, 2017[5])

Municipalities also incur capital expenditures, which are funded by a combination of their own revenue, transfers from the state budget, loans, donations, and EU funds. The amount of the targeted (earmarked) capital expenditure subsidy and the mechanism for distributing it per municipality is set out in the State

Budget Act for the relevant year. According to the guidelines for the PBAs for the preparation of their budget forecasts, municipalities must plan the use of transfers from the state budget, at the same level as defined in the State Budget Act for the current year. The subsidy for a specific municipality must be allocated to construction projects and major repairs, acquisition of intangible assets and repayment of loans for capital expenditure under a decision of the municipal council. Therefore, their ability to plan for capital expenditure is restricted. Despite this restriction, the municipalities prioritise capital investments by drawing up a list after consulting with both citizens and business at local level. Every municipality has a four-year plan that includes a list of projects, which address the investment requirements of the municipality. Municipal investment is highly dependent on the national government and EU funds, and therefore quite volatile. The ability of municipalities to access EU funds is also highly polarised, with many municipalities having difficulty to meet co-financing requirements. (OECD, 2021[6])

Furthermore, as noted in Section 5: Project Selection, Prioritisation and Appraisal Processes, there is no clearly defined standard methodology for planning, monitoring, and reporting on capital investments, which would apply across all sectors equally. The primary basis for approving projects derives from (i) the need to draw down EU co-financing and (ii) the overall budgetary aggregates, which dictates what can be afforded. The guiding principle is that the individual PBAs are best placed to develop policies in their area of competence. The head of each budget organisation is responsible for managing the budget for each particular year and prioritising expenditures, including investment expenditures, if this complies with overall expenditure guidelines issued by the Ministry of Finance. Prioritisation for capital investment depends primarily on the relevant PBAs, with the MOF carrying out its monitoring and analysis role in the context of compliance with agreed policies and available resources. Any monitoring of capital expenditure is within the context of the overall budget of the PBAs. There is no specialist unit within the MOF charged with carrying out the monitoring of capital expenditures. In line with this decentralised approach, the focus on capital expenditures is about ensuring they remain within the overall budget of the individual PBA. A standard methodology would allow for prioritisation of projects across sectors in terms of return on investment. It would facilitate an approach that would provide better value for money on capital expenditures.

Beginning with the preparation of the 2020 Budget, the MOF's guidelines instructed the PBAs to prepare their three-year budget forecasts for capital expenditures and capital transfers in more detail. Each PBA also was required to submit an explanation of its investment policy in general (including in the current year) and for investment projects with an estimated cost of more than BGN 500 000, they were required to provide specific information to the MoF under a form called "list of priority investment projects". The form requires the PBA to justify the proposed project under 12 criteria. Since 2021, this threshold has been increased to BGN 1 million. This is a step towards better prioritisation and ensures that plans for new projects take account of the progress of existing ones.

There is no evidence to suggest that in prioritising capital investment, subsequent recurrent costs are considered even though one of the 12 criteria for priority investment projects is whether the implemented project will require maintenance costs. In Bulgaria, current expenditures are regarded as being separate from capital expenditures and are not bound to a specific investment project. Lifecycle costing of a project does not have to be considered. If recurrent costs are considered it is a matter for the managing authority because the MOF does not require this to be done in every case.

This view should be revised because some capital projects can have significant implications for current expenditures once the physical building is completed. If capital budgeting is an integral element of the budget, planned investments should take account of subsequent current expenditure commitments. Additionally, for large projects at least, the current costs should also be published alongside the initial capital investment.

The implementation of investment projects is often subject to delay. While some delay is inevitable owing to unfavourable weather conditions or the challenges that complex projects often present, in two of the

three most recent years actual capital expenditure has been less than 80% of the planned allocation. It is possible, however, that this was exacerbated by the impact of Covid-19 and in 2019, the actual capital expenditure was only 11% less than the planned allocation. Table 5.2 demonstrates differences between planned and actual expenditure between the years 2019 and 2021.

Table 5.2. Actual capital expenditure compared to planned expenditure under the Consolidated Fiscal Programme Bulgaria, 2019-21

	2019	2020	2021
Planned expenditure (million BGN)	8 394.9	6 911.8	6 109.6
Actual expenditure (million BGN)	7 507.3	5 035.6	3 840.3
Actual as a % of planned	89%	73%	63%

Source: (Ministry of Finance, Bulgaria, 2018[7])

Municipal bodies can carry forward unspent capital funds into the next year without changing the purpose of the funds. For central government bodies, however, there is no provision for the carry-over of unspent capital funds into the following year, which would make it easier to cope with delays. Neither is there a provision for virement between capital and current expenditures. Capital expenditures by first-level spending unit are adopted in accordance with the annual state budget law and amendments are made by the respective authority in line with the requirements of the Public Finance Act or the annual state budget law. Since the first-level spending units have a degree of flexibility for selecting capital projects as long as they remain within their respective total budget allocations, it is possible that a delay in one particular project could result in another project being initiated in its place. It also could lead to projects being selected in the first instance mainly to avoid underspend on the budget units' capital allocation.

Changes in political priorities can also affect expenditures. A change in government can result in certain investment projects being deferred or cancelled. This tends to encourage planners to prioritize shorter projects over longer ones, at least where the funding is domestic rather than from the EU. Indeed, the guidelines for prioritizing investment projects encourage PBAs to select projects that can be completed within a projected 3-year period. As noted in Long Term Strategic Vision and Planning, it is important for governments to plan their investments for the long-term with minimal disruption because it delivers certainty of the investment pipeline for communities, businesses and the infrastructure market. As also noted in Long Term Strategic Vision and Planning, stopping unfinished projects to provide funding for new priority projects does occur but is reactive, costly and not in line with sound planning practices. Importantly, projects with EU funds do not have such a problem since the commitments are strictly set out in the Operational Programmes.

The State Expenditures Directorate of the MOF monitors the capital expenditures of state authorities and other units included in the consolidated fiscal programme. The Local Government Directorate monitors the capital expenditure of the municipalities financed by the earmarked subsidy and carries out the relevant analyses of their capital expenditure. Municipalities must submit to the MoF estimates for financing capital expenditures and monthly reports on their implementation. The estimates and the quarterly reports on the financing of capital expenditure are published on the websites of the municipalities.

The State Expenditures Directorate is responsible for the budgets of first level spending units; there is no separate unit responsible for monitoring capital investment. The expert responsible for each PBA reviews the overall budget of that entity and there is no specialist monitoring of the capital side of the entity's budget. In effect, this means that only the National Fund Directorate carries out detailed monitoring of capital expenditures, in accordance with the terms under which EU funds are disbursed.

If cost overruns emerge on a project, the PBA can amend its budget. It can transfer funding from another project, or it can seek additional funds through a decision of the Council of Ministers. If the latter, the PBA

must prepare a financial justification, which provides an impact assessment in a developed form. There is no requirement for the provision of a CBA.

The reporting on the implementation of large investment projects includes data on the overall costs and on whether projects are meeting their construction milestones. Data on capital expenditures are included in the quarterly, six-monthly and annual reports to the MOF. In compliance with the ministry's guidelines, each PBA reports every quarter in a standard form on the capital expenditure under each separate project. Additional information on the implementation of investment projects by the PBAs is contained in their semi-annual and annual programme reports. These reports contain information to demonstrate that both the total cost and the physical progress of major investment projects are being monitored by the responsible government unit. These reports are in a programme format and contain detailed information on the degree of implementation and achieved societal benefits regarding KPIs for each policy area. Since 2021, the guidelines of the Minister of Finance3 requires the PBAs to submit detailed quarterly information on investment projects with an estimated value of more than BGN 50 million. This has increased ongoing monitoring of the financial performance of certain investment projects.

Units responsible for individual policy areas are also required to report to the minister and senior management regarding progress on major investment projects. In addition, each line ministry is required to report monthly on the implementation of projects funded by state investment loans, accompanied by an explanatory note. For projects funded by European Structural and Investment Funds and other international programmes and contracts, the reporting format and periodicity is regulated in the grant agreement. Financial statements are submitted quarterly to the Steering Committee. A request to the Steering Committee for payment is accompanied by a technical report demonstrating the physical progress of the projects in question.

Furthermore, although physical progress is reported, the MOF does not exercise on-site monitoring of physical performance. On-site control is carried out by the relevant ministry. Information is collected on standardized forms, attached to the guidelines, and the same information is collected from all PBAs. On the basis that the execution of the projects is the responsibility of the PBAs, the MOF considers that this is sufficient.

Despite the reporting requirements, the absence of a centralised methodology for appraisal and evaluation means that there is a greater concentration on the procedural part of the capital investment than on resource management. Across different budget units and different projects, there are different assessment procedures and different performance criteria. Furthermore, there is no established procedure for conducting reviews or evaluations of investment projects to determine whether the projects were delivered in line with expectations and/or to identify lessons that could be learnt with a view to improving capital investment in the future. The lack of such procedures has negative implications for the requirement to ensure value for money.

Weak oversight is reflected by the fact that internal audit units of the PBAs with high capital expenditure do not always seem to focus significantly on investment projects. The internal audit unit in one agency responsible for a major infrastructure network regularly focuses on capital projects and makes recommendations with deadlines for their implementation. The same agency also has a risk analysis directorate responsible for checking the physical progress on projects in the various districts. Similarly, in another agency responsible for a different infrastructure network, its internal audit unit undertakes audits of capital works. In other PBAs, however, it seems that the internal audit function is under resourced and/or does not consider that capital investment projects should be a priority for audit as they only focus on internal procedures within the entity. The attitude seems to be that the Financial Inspection Agency can carry out inspections or the National Audit Office (NAO), or the Audit of European Union Funds Executive Agency in case of EU co-financed projects, can carry out external audits so that any problems could be identified in this fashion. Even where internal audit units make recommendations for managers to improve

internal controls subsequent to audit findings, the NAO has found that the recommendations may not be implemented.

The importance of internal audit is recognized in Guidance for the Management of Risk in the Public Sector, which was adopted by an order of the Minister of Finance in 2020. The guidance recognises that close interaction between an organisation's management and internal audit is key to the effectiveness of the risk management process because the internal auditor should assess risk management systems, identify and evaluate material risks, and assist the manager without assuming responsibility. Given the risk that can materialise with capital projects, it is vital that they are subject to risk management including the scrutiny of internal audit.

Capital expenditures can only be incurred in accordance with legislation, which provides the framework within which PBAs operate. Each PBA is provided with an agreed capital budget and it carries the main responsibility for the projects funded from that budget. It must report regularly to the MOF. Despite this legal framework, there are significant weaknesses in the system. The MoF is satisfied if the budget is not exceeded and reports are submitted. The concept of monitoring seems to be limited to the submission and receipt of reports and there is little discussion about the implementation of projects. There is almost no focus on physical progress of projects even though this is contained in reports. There is no consideration given to the operational costs once a project is completed and operational.

There is no overall coordinating body which is responsible for ensuring that capital investments are undertaken in a structured manner. Such a body would be expected to regularly consult with PBAs regarding the implementation of projects and the expenditure being incurred. It would ensure that projects are planned so that where they coincide or overlap to some extent, they are carried out in a coordinated way so that the total costs are minimized, as well as ensuring that delays do not occur owing to projects clashing with each other. It should also ensure that a multi-annual approach is adopted so that costs are accurately reflected in the medium-term expenditure framework and beyond where projects are long term. Where the cost of project changes, this should be tracked and recorded in a medium-term expenditure framework so the impact on the public finances can be clearly seen in a multi-annual context.

5.2.1. *Fiscal Risks*

The MOF is responsible for the identification of and reporting on contingent liabilities. The main budgetary documents (the Medium-Term Budget Forecast, the Convergence Programme, the Updated Medium-Term Budget Forecast which are among the documents underpinning the draft annual state budget law) contain information on fiscal risks, based on which the fiscal targets and parameters of the medium-term budgetary framework (fiscal policy) are defined. The MOF identifies mitigating measures or buffers based on the identified risks and the alternative scenarios developed.

An examination of the Budget Forecast 2023-2025 shows that the document contains a section entitled Fiscal Risks but that it is rather short. It identifies risks to the public finances posed by the war in Ukraine, Covid-19, higher energy costs, general inflationary pressures but does not quantify the costs of any of these risks. It rightly highlights Bulgaria’s low level of public debt as a mitigating factor and although it does not mention a contingency provision, there is a contingency reserve included in the budget to create a source of funding in the event of the realisation of some risks or other unforeseen expenditure. This contingency reserve is provided under Article 42.3 of the PFA, which also provides that the amount will be decided by the government on an annual basis.

Furthermore, some fiscal risks are quantified. For example, the Convergence Programme 2022-2025 provides quantified information on contingent liabilities comprising state guarantees and the guaranteed debt of the general government sector. Liabilities of state-owned enterprises are not provided although these were included in previous Convergence Programmes.

Box 5.3 shows the example of Latvia which has developed a sophisticated fiscal risk management framework that mitigates for a wide range of factors including capital investment and PPPs. Two key elements to fiscal risk management in Latvia are the Fiscal Safety Reserve, which is set at a minimum of 0.1% of GDP and the responsibility of line ministries in managing their risks. While fiscal risk is managed by the MoF at the overall level, there is no suggestion that the Safety Reserve should be automatically used in the event of a risk materialising. In a study of fiscal risk management in five OECD countries, the OECD has found that where countries maintain a fiscal reserve for unforeseen risks materialising, the reserve has no relation to the evolution of the stock of fiscal risks because the authorities want to avoid the perception that cost overruns will be funded unconditionally (OECD, 2020[8]). Even where a reserve exists, line ministries should be expected to fund overruns by offsetting savings elsewhere in their budgets.

Box 5.3. Fiscal Risk Management Framework in Latvia

Latvia's fiscal risks management framework is well integrated into the processes for managing fiscal policy and the budget. The fiscal risks framework has a strong legal basis. The 2014 Fiscal Discipline Law requires regular identification, disclosure and mitigation of fiscal risks. A Declaration on Fiscal Risks is annexed to the Medium-Term Budget Framework Law published every year. The Law also sets a Fiscal Safety Reserve of at least 0.1% of GDP, which provides a pocket of financial resources that can be tapped if fiscal risks materialise. Government regulation No. 229 governs the management of fiscal risks by the public administration and the methodology to determine the size of the Fiscal Safety Reserve. Fiscal risks are monitored and managed by a well-specified and devolved management system. The Fiscal Discipline Council also carries out an external control function.

Latvia has developed a sophisticated methodology to identify and measure fiscal risks. It first classifies the sources of fiscal risks according to a modified version of a matrix developed by the World Bank, which includes risks associated with capital investment including future recurrent costs when the project is completed. Fiscal risks are defined by the nature of a government obligation (implicit or explicit) and the influence of the government on the materialisation of the risks. It defines two types of fiscal risks: quantifiable and non-quantifiable. A quantified fiscal risk is one where the probability of occurrence and the impact on the budget balance are assessed. Latvia's Declaration of Fiscal Risks identifies and discusses both types of fiscal risk. Their measurement is then used to determine the Fiscal Safety Reserve.

Fiscal risks are measured both quantitatively and qualitatively. The impact on the general government balance is measured qualitatively on a three-point scale: the impact may be considered as significant (>0.5% of GDP), medium (between 0.01% and 0.5% of GDP) or low (below or equal to 0.01% of GDP). Where possible, the impact is also measured quantitatively. The probability of a fiscal risk materialising is assessed on a 5-point scale. Existing mitigation measures are taken into account in assessing this probability.

The Declaration on Fiscal Risks presents an assessment of the accuracy of past fiscal forecasts. Sources of deviations from past forecasts are examined from both the perspective of the structural balance and the nominal balance at the general government level.

Latvia's fiscal risks management framework is also operationalised by a devolved three-tiered management system. The Fiscal Policy Department in the MoF handles the general management of fiscal risks. The Department maintains a register of fiscal risks and liaises with individual ministries and agencies to update it. The Department also provides methodological assistance to central administration institutions on a case-by-case basis. Central administration institutions such as line ministries are responsible for fiscal risks that are more specific to their functions. They coordinate with the MoF to keep the register up to date. They also elaborate their own fiscal risk management reports

that are submitted to the MoF every year. In addition to quantifiable and non-quantifiable risks, Latvia distinguishes a third level of fiscal risk management: individual fiscal risks. Individual fiscal risks are those related to the execution of projects and policy. One such example is fiscal risks stemming from a state-owned enterprise (SOE) or a specific Public Private Partnership (PPP) project. Responsibility for these risks is devolved to the entity that directly supervises the corporation or policy.

Every year, the Declaration of Fiscal Risks that is annexed to the Medium-Term Budget Framework Law contains several elements. These are a descriptive summary of the Latvian management framework of fiscal risks, their classification, the methodology to assess how likely they are to occur and their budget impact, a presentation of each quantifiable fiscal risk and non-quantifiable fiscal risk, and the calculation of the Fiscal Safety Reserve.

Source: Information provided to the OECD by the Latvian authorities

Under the Concessions Act, concession contracts and public private partnerships (PPPs) are granted only on condition that the construction risk and the operational risk is borne by the concessionaire. The operational risk borne by the concessionaire is the risk of exposure to market fluctuations in the demand and/or supply of the object of the concession and/or the services The operational risk is borne because, under normal operating conditions, the concession contract does not guarantee the return of the investments made and the costs of operating the construction or services subject to the concession. Risks related to mismanagement, failure of the economic operator to fulfil contractual obligations and force majeure are not considered as operational risk.

All other risks are allocated between the government (or the mayor of a municipality) as the grantor of the concession and the concessionaire depending on the capacity of each party to better assess, control and manage the respective risk. The allocation of risks is part of the preliminary financial and economic analysis and justification of the concession, which are monitored on an ongoing basis by the responsible parties. In the event of an amendment to the concession contract, the allocation of risks set out in the original contract should be maintained.

What this means is that concessions and PPPs are potential fiscal risks that need to be managed and mitigated. There are currently no PPPs in Bulgaria but should any such projects become operational in the future, associated contingent liabilities will have to be considered.

Under the Financial Management and Control Act in the Public Sector, the heads of public sector organizations are responsible for achieving the organizations' objectives by managing public funds in a lawful, economical, efficient and effective manner and this includes capital expenditure. While this may be legally correct (and indeed follows the internationally recognised COSO framework and its standards, as well as EU good practices regarding managerial accountability), the mitigation of fiscal risks posed by capital investment – whether through PPPs or direct procurement – is about anticipating what could go wrong despite the efforts of the managing authority. For example, in Spain, several road concessionaires, already suffering from low structural demand and construction cost overruns, went technically bankrupt after the 2008 global financial crisis when highway demand dropped 15–20% for several years, and ultimately had to be rescued by government. This report discusses concession contracts and PPPs in more detail in Section 7: Value for Money for Public and Private Investment in Infrastructure.

From a budgetary perspective, the key weaknesses can be summarized as follows:

- EU-funded projects are well monitored but there is a less structured approach to domestically funded projects. There is regular reporting on capital expenditures but there is little analysis of the reports and there is little monitoring of physical progress. The lack of a rigorous public investment management system could be leading to wasteful spending.

- Although the debt/GDP ratio is low and there is a contingency provision in the Budget, there is no fiscal risk management strategy in place. Although several fiscal risks are monitored and the Budget contains a short section on fiscal risks, there does not appear to be systematic identification of risks with mitigating factors specified.
- Capital budgeting is very much on an annual rather than the multi-annual approach. There is a multi-annual budget framework, but this is top-down with little emphasis on the need to engage in realistic planning and costing of projects. There is often uncertainty regarding funding and consequently some projects may be halted or postponed to make way for other priority projects.
- State bodies are not allowed to carry forward unspent funds from year to year. Municipal bodies can carry forward unspent funds into the next year, but State bodies must surrender these funds and agree with the MOF to spend as part of the following year's budget. Many countries allow carry-over of at least some unspent moneys to encourage line managers to manage the overall cost rather than an annual cost of a project.
- Internal audit units of PBAs with high capital expenditure do not focus significantly on investment projects which means that risk associated with capital investment may not be receiving the scrutiny it merits. Internal audit units are often under resourced and in prioritizing internal audit activities, they may focus only on internal procedures within the entity. Given that capital projects can incur significant costs, it would be worthwhile focusing on the procedures for agreeing contracts and managing these types of projects.

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Notes

[1] Includes expenditure on the acquisition of computers and hardware, as well as the acquisition of software and software licences.

[2] Ordinance on the conditions to be met by investment projects financed by government loans and the projects applying for financing under a state guarantee and the procedure for their consideration.

[3] RD No. 3/15.09.2021.

6 Value for money for public and private investment in infrastructure

This chapter focuses on how traditional and non-traditional forms of procurement, including public-private partnerships and concession contracts, can help deliver investments more efficiently, economically and equitably. While making sure that investments are procured efficiently, procurement can also ensure that investments are delivered, operated and maintained in a way that delivers maximum value and efficiency over the full duration of an investment's life. This chapter focuses on how traditional and non-traditional procurement perform in Bulgaria.

As noted in Section 5: Project Selection, Prioritisation and Appraisal, the OECD Recommendation on the Governance of Infrastructure states that to guard fiscal sustainability, affordability and value for money, countries must:

> *"… select delivery modes (i.e. the way in which the infrastructure asset will be provided and financed) that are grounded in value for money and optimal allocation of risk between the parties, with no institutional, procedural, fiscal or accounting biases for any particular delivery mode.*
>
> *Ensure a transparent and appropriate allocation of risks in the structuring of the project, along with a comprehensive and agreed plan for managing, monitoring and mitigating risks during the asset lifecycle …." (OECD, 2020[1])*

The 2012 OECD Recommendation of the Council on Principles for Public Governance of Public Private Partnerships (PPPs) sets out the following requirements for a thriving PPP market that achieves value for money:

- "Establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities:
  - The political leadership should ensure public awareness of the relative costs, benefits and risks of PPPs and conventional procurement as well as involving end-users in defining the project and subsequently in monitoring service quality.
  - Procuring authorities, PPP Units, the Central Budget Authority, the Supreme Audit Institution and sector regulators are entrusted with clear mandates and sufficient resources to ensure a prudent procurement process and clear lines of accountability.
  - Ensure that all significant regulation affecting the operation of PPPs is clear, transparent and enforced.
- Ground the selection of PPPs in Value for Money:
  - The decision to invest should be based on genuine needs. There should be no institutional, procedural or accounting bias either in favour of or against PPPs.
  - Carefully investigate which investment method is likely to yield most value for money and identify the key risk factors.
  - Transfer the risks to the parties for whom it costs the least to prevent the risk from realising or for whom realised risk costs the least.
  - The procuring authorities should safeguard value for money by preparing for the operational phase with the same intensity as during the pre-operational phase.
  - Value for money should be maintained when renegotiating. Only if conditions change due to discretionary public policy actions should the government consider compensating the private sector, with re-negotiations happening transparently and subject to clear, predictable and transparent rules for dispute resolution.
  - Government should ensure there is sufficient competition in the market by a competitive tender process and by possibly structuring the PPP programme so that there is an ongoing functional market. Where market operators are few, governments should ensure a level playing field in the tendering process so that non-incumbent operators can enter the market.
  - Use the budgetary process transparently to minimise fiscal risks and ensure the integrity of the procurement process.
  - In line with the government's fiscal policy, the Central Budget Authority should ensure that the project is affordable and the overall investment envelope is sustainable.
  - The project should be treated transparently in the budget process, with all costs and contingent liabilities disclosed.

- Government should guard against waste and corruption by ensuring the integrity of the procurement process. The necessary procurement skills and powers should be made available to the relevant authorities." (OECD, 2012[2])

6.1. Why is achieving value for money for public and private investment in infrastructure important?

Value for money is important because it helps decision-makers strike the best balance between economy, efficiency, effectiveness and equity. Value for money is not just about reducing the cost of inputs or achieving efficiency; it is also about ensuring an investment is effective at delivering the intended outcomes. For example, if the effectiveness of an activity is notably reduced because of a small cost saving, value for money is reduced. Similarly, while an activity may be very cheap and run efficiently, if it does not achieve results, it is not value for money. The quality of the outcomes is fundamental to understanding whether something is providing value.

While value for money is primarily established at the project selection stage, procurement also plays an important role in delivering value for money. Two common methods for governments to achieve value for money through procurement is by involving private investment and transferring risk to private parties, which require agreement with private investors in the form of concession contracts and public private partnerships (PPP). Concession contracts are where a government asks a corporation, after a competitive procedure, to manage the construction, as well as finance and operate an asset throughout the life of the contract. The private party will charge the final users for the use of services linked with the asset, from which most of the private party's income arises. Under these conditions the assets will be posted in the balance of the private party, without effect on the government deficit. PPPs are where a government is the main purchaser of the services, through regular payments once the assets are supplied by the private party. Whether the demand originates directly from government itself or from third party users, the government must be the main purchaser of services.

The PPP model has been used around the world with the intention to improve the delivery of service outcomes from major public infrastructure assets by integrating asset and service design; incentivising whole of life design and asset management; allocating risks to the parties who are best able to manage them; and only paying for services that meet pre-agreed performance standards. For PPPs, it is important that roles and responsibilities are clearly stated and that risks are centrally managed. For example, Portugal established a department in the MOF, the Project-Steering Technical Department, to lead the evaluation and procurement of PPPs and large infrastructure projects. The central role of the MOF can ensure that proposed projects are adequately appraised before they are approved. A centralised approach with key steps that must be adhered to will result in better informed decision-making as well as a clearer understanding of the fiscal risks involved. At the planning stage, it can help to minimise risks posed by poor identification of needs, poor strategic planning, poor coordination with other public bodies and poor project appraisal. At the allocation stage, it can minimise risks associated with failing to carry out lifecycle costing, failure to take a multi-year approach, failure to assess affordability as well as poor project selection. Then at the implementation stage, it can guard against the wrong procurement option being selected, unforeseen risks associated with the construction including objections from affected parties, as well as the risks associated with operational problems such as demand issues and regulation of user fees.

PPPs have been used to keep government debts off their core balance sheets, thereby appearing to minimise a government's overall debt profile. However, as the 2012 OECD Recommendation of the Council on Principles for Public Governance of Public Private Partnerships notes, this is not an appropriate use of the PPP model.

Box 6.1 outlines important findings from the International Transport Forum on the circumstances under which PPPs can be best deployed to achieve value for money.

Box 6.1. International Transport Forum analysis on when PPPs are most effective

In 2018, the International Transport Forum (ITF), housed within the OECD, undertook an in-depth study of the role and the economics behind private investment in infrastructure, involving more than 30 experts, academics and practitioners from 13 countries. ITF found that well-defined and less complex structures in terms of time and space can often be organised into PPP-like structures where risks can be defined, predicted and allocated between the contracting partners without too high complexity or cost. More complex structures with a longer life span and involving many actors and constituencies (space) might lead to a contractual situation that is highly demanding and therefore less efficient for a PPP.

The first reason for this is because construction and maintenance contracts in PPPs must rely on fixed date and fix price delivery requirements. This can increase the uncertainty contractors face in the bidding process and lead to excessive contingencies, driving up project costs. Second, fixed long-term contracts do not leave room for uncertainty and future changes, potentially leading to renegotiations, which can be costly and time-consuming for all parties, including the public purchaser.

ITF also found that PPPs can best yield superior value for money in circumstances where continuous pressure for efficiency is present and where demand is highly responsive to service quality. Examples include sea and airports serving the same catchment area and who thereby compete for demand.

In cases where continuous pressure for efficiency cannot be assured and where long duration periods occur, such as social infrastructure and road PPPs, the ITF recommended the regulatory asset based (RAB) model. RAB models are commonly used in the regulation of privatized utilities. In the case of RAB, a specialised regulator continuously benchmarks and measures the performance of the infrastructure operator. Periodic price reviews are built in the contract between the public sector and the operator.

Source: (International Transport Forum, 2020[3])

6.2. How well does Bulgaria promote value for money for public and private investment in infrastructure?

Bulgaria has a legal framework in place for public procurement, concession contracts and PPPs, but there are few concessions or PPPs. Concession contracts and PPPs are looked upon unfavourably by politicians, the public and the construction market. However, there is evidence that some concession contracts are providing the basis for good public sector outcomes, reducing costs for users and generating returns to invest back into networks.

The following section evaluates how PPPs, concession contracts and conventional public procurement are applied in Bulgaria.

6.2.1. Public Private Partnerships and Concession Contracts

Since 1995, the national government has awarded concession contracts for a small number of airports, seaports and water infrastructure projects and some municipalities have awarded concessions contracts for public facilities, such as sports grounds. For natural resources, concession contracts are an obligatory means of contracting. As of April 2022, the Ministry of Transport and Communications had 19 concession contracts in operation.

The Concessions Act 2018 specifies that concession and PPP contract arrangements are granted on the condition that the operational risk is borne by the concessionaire. The Act defines the following types of risks:

Operational risk - arises from factors beyond the control of the parties to the concession agreement and represents the risk of exposure to market fluctuations in the demand for and/or supply of the concession object and/or services. Risks related to mismanagement, non-performance of contractual obligations by the economic operator and force majeure are not considered as operational risk. Supply and demand risk are subsequently defined as follows:

- Demand risk - facts or circumstances that may adversely affect market demand for the object of the concession, the services provided or other business activities carried out.
- Supply risk - the services offered or other business activities carried out will not meet the requirements of the market, including the risk of availability of the services provided. Availability risk is the likelihood of an event, fact or circumstance occurring that may affect the provision of the service in a form, volume, quality and time of performance that is consistent with that specified in the concession contract (Republic of Bulgaria, 2018[4]).

In the case of concession contracts for construction projects, the contractor bears the construction and operational risk. All other risks are allocated between either the responsible minister or municipal mayor and the contractor depending on the capacity of each party to best assess, control and manage the respective risk. Risk allocation happens as part of the preliminary financial and economic analysis. Risks are monitored on an ongoing basis and, if a concession contract is amended, the allocation of risk must stay the same.

The mayor and the minister are accountable to the municipal council and the Council of Ministers respectively for the overall performance of all concession contracts. The responsible mayors and ministers publish information annually on the implementation of concession contracts, which is published in the National Concession Register. To ensure the responsible ministers and mayors are meeting their obligations, the Public Enterprises and Control Agency (PECA) carries out inspections according to a schedule that is approved by the Council of Ministers. Over the last three years, the PECA has carried out five inspections per year. The Concessions Coordination Council (CCC) may commission extraordinary inspections on a wide range of matters at their discretion. However, to date the CCC have not used this power.

Often, line ministries and municipalities lack the capacity to appoint and manage concessions. To help address this, the Administration of Council of Ministers recently launched an information campaign and training for officials in ministries and municipalities managing concession contracts.

All contracts concluded by the State have penalty clauses for failing to implement the investment programme or meet payment obligations. According to the Concessions Act 2018, the assets subject to a concession contract can be owned by the contract authority (i.e. state or municipality) or the contractor. At present, there is no concession contract where the assets are owned by the contractor.

Overall, the payment of availability fees and other charges associated with concessions and traditional PPPs are not well-perceived by decision makers, the construction market and the public. There is a view among some officials that it is easier to award EU funds through conventional public procurement because private funding and finance crowds out European funds. In Bulgaria, authorities still lack an understanding of how EU funds can be allocated through a concession-based delivery model. The construction industry does not look positively upon concession contracts due to concerns with taking on operational risk. As a result, the construction sector typically prefers public procurement.

As a result, there are no concession activities proposed in the Resilience and Recovery Plan. This is despite the National Strategy for the Development of Concessions recommending construction of all infrastructure projects valued above EUR 50 million be considered for the concession contract model.

Frequent changes to legislation related to concessions have also made implementing concession contracts challenging due to the disruption this causes to contracts with duration periods of 35 years and longer.

Given the low number of infrastructure concession contracts, it is difficult to compare the outcomes against conventional public procurement. Where concessions have been possible, there is some evidence they have provided a basis for better service outcomes and reinvestment back into infrastructure networks. In Sofia, leakages in the water services network have reduced from 60% to 20% under a concession contract. The concessionaire has also invested to modernize Sofia's water network's drinking water treatment plants. The charges that consumers pay for water, which are regulated, are lower than other municipalities where concession contracts are not in place, although this could also be because as a larger municipality, they can be more efficient by delivering infrastructure and services at greater scale. There are other examples of where the public is getting better outcomes under concession contracts than conventional public procurement, such as several port terminals where the level of investment from the concessionaire back into the asset is greater than compared to those owned by the State and managed by State-owned companies.

There is some information available for ministries and municipalities to learn about best-practice, the benefits of using concession contracts and lessons from previous experience. All guidelines and instructions are published in the National Concessions Register and guidelines can be issued upon request by contracting authorities. Grantors of concessions are required to publish a notice in the National Concession Register for an awarded concession, which includes information on the value of the concession. Grantors are also required to publish concession contracts, amendment agreements and annual information on the execution of concession contracts.

Work is underway to review and refresh Bulgaria's approach to concession contracts. An interim assessment of the National Concessions Strategy was being carried out at the time of the mission. The Administration of Council of Ministers asked all ministries and municipalities to confirm whether they assessed projects for suitability with the concession contracts model – 21 responses were received, of which only one municipality indicated that it had carried out such an assessment. To encourage wider adoption of concession contracts, change needs to be driven at the political level.

6.2.2. Conventional Public Procurement

The Public Procurement Act states that public contracts must be awarded in accordance with the Principles of the Treaty on the Functioning of the European Union. The internal rules under the Act sets out the following rules for public contracting authorities:

- The forecasting of procurement needs, including establishing the dates by which contracts must be in place, taking in to account time needed for contract preparation, conducting procedures and concluding contracts.
- Assignment of staff to necessary procurement procedures.
- The recording of tenders and other formal documentation.
- Monitoring of contracts.
- Actions in the event of court proceedings.
- Induction and refresher training.
- Documenting each stage of the procurement cycle (Republic of Bulgaria, 2019[5]).

The Act also requires that for procurement valued above BGN 5 million (EUR 2.5 million), public contracting authorities must develop and adopt rules for the management of the procurement cycle. However, the Act does not require public contracting authorities to undertake a risk assessment.

Bulgaria has two central purchasing bodies, the Ministries of Finance and Health, and many public contracting authorities. Overall, there is considerable fragmentation across public procurement in Bulgaria,

such as a lack of standardized documentation, contracts and methodological guidance. Greater centralization of procurement would help make procurement more efficient and reduce mistakes. However, bespoke contracts may in some instances be necessary because standard contracts cannot anticipate every scenario or outcome. Frequent changes to the Public Procurement Act also make it difficult for officials to keep up with the latest rules, which can slow procurement processes and result in errors. To help address these issues, The Public Procurement Agency facilitates the sharing of information, provides support and advice on applying the law and other procedural matters. The Institute of Public Administration also organizes training sessions for officials on the latest procurement rules.

When procuring major public investments, such as new roads, they are typically divided into sections given the sizeable financial cost and to minimize risks. The Public Procurement Act encourages openness and transparency through the use of open competitive tenders, as well as other forms of tenders.

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7 Integrating stakeholder engagement into planning and decision making

Involving stakeholders in decisions about public investments helps build trust between governments and citizens. Involving stakeholders early can give stakeholders the best opportunity to inform the design, planning and delivery of public investments, which can reduce the likelihood of stakeholders raising concerns at later stages of the investment lifecycle. This chapter identifies particular methods of identifying and involving stakeholders in public investment decisions, and assesses how national and municipal governments in Bulgaria integrate stakeholders in their decision making presently.

The OECD Recommendation of the Council on the Governance of Infrastructure makes the following recommendation to ensure transparent, systematic and effective stakeholder participation in infrastructure decision-making:

> *"Providing and taking proactive measures to disseminate information on infrastructure projects, including their potential short and long-term effects, and allow for continuous, inclusive, social and open dialogues that are broad-based, involving relevant stakeholders in planning, decision-making and oversight.*
>
> *Integrating consultation processes that are proportionate to the characteristics of the project (e.g. size, political sensitivity, environmental aspects, and impacted population) and that take account of the overall public interest and of the views of the relevant stakeholders through a disciplined, upfront stakeholder mapping and analysis, which can ensure engagement efforts cost-effectively to include relevant groups in decision making.*
>
> *Ensuring meaningful stakeholder engagement with users and impacted communities to collaborate during the relevant phases of the project lifecycle, ensuring debate and oversight on the main economic, fiscal, environmental and social impacts of the project."*
> *(OECD, 2020[1])*

7.1. Why is integrating stakeholder engagement into planning and decision-making processes important?

Stakeholder engagement and participatory initiatives bear tremendous potential to make decision-making address today's societal problems effectively and credibly. Decisions about public investments can be significantly improved when those impacted are involved in the decision-making process. It allows for alternatives to be found, assumptions to be tested, and helps to build trust in government action. Stakeholder engagement can take place with citizens, affected property owners, businesses, representative organisations, the public sector and non-governmental organisations among many others. Given the wide range of potentially affected stakeholders, it is important to consult broadly, ensuring that all relevant impacts are assessed, and that decisions about public investments are – where appropriate – reviewed, amended and open to legal challenge.

Public investment decisions, and the process of making them, are expected to reflect the needs and reality of society, but they also ought to adapt and react quickly to changes. This can happen more easily when systems and practices for creating and improving regulations are fully embedded into the country's decision-making processes, rather than viewed as a bureaucratic afterthought.

Stakeholder engagement can take place at various levels of government – from local communities to the national level – and be applied to most public investment decisions. It is particularly important for decisions about large, physical assets to include input from stakeholders, given the immediate impact that roads, water services, electricity infrastructure and public facilities have on people's wellbeing, the productivity and operations of businesses and the policy decisions of national and sub-national governments. Another important aspect of stakeholder engagement involves land acquisition, where public works providers have recourse to acquire private land holdings. When engaging with affected property owners in particular, it is critical that governments are transparent, fair and timely with making decisions that impact the property and wealth of people and businesses.

But not all stakeholders are equally affected by a particular public investment proposal. Also, different stakeholders will have different information needs. Different stakeholder engagement options exist along a spectrum depending on the extent to which a particular stakeholder is impacted by the proposed public investment. Figure 7.1 depicts the spectrum of approaches to stakeholder engagement that are available depending on the nature of the activity. This can be a useful framework to help identify how different stakeholders can be best involved in a decision-making process about a particular public investment.

Figure 7.1. Public Participation Spectrum

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into decisions to the maximum extent possible.	We will implement what you decide.

Source; (IAP2 International Federation, 2014[2])

Different circumstances will require different approaches to stakeholder engagement. For example, larger, longer-lasting public investments that impact a wide range of people may need a more structured, systematic approach, involving many different methods of gathering information, to accurately capture a wide range of perspectives. A more specific public investment, which might have a direct impact on a small group of individuals, may require more in-depth, targeted engagement. Quality stakeholder engagement, which captures the perspectives of people from across society, will also use communications and engagement tools that appeal to people of a diverse range of ages, cultural backgrounds and gender.

While stakeholder engagement can be enormously beneficial to helping inform public investment decisions, this needs to be balanced against the need to bring certainty to communities, businesses and other stakeholders. This can mean seeking stakeholder input early in a public investment decision, but not necessarily allowing decisions to be revisited once they have been made with input from stakeholders.

Stakeholder engagement, when done well, can lead to better, more acceptable choices from environmental, economic and technical perspectives. It can also give decision-makers better information, avoid conflicts later in the process and raise the legitimacy of the decision-making process. Stakeholders also benefit by having better information, greater confidence in democracy and public institutions and public assets and services that better reflect their needs.

7.2. What is the quality of Bulgaria's stakeholder engagement processes?

According to guidelines for the development of national, regional and territorial planning (Republic of Bulgaria, n.d.[3]), the principles of partnership and stakeholder participation are mandatory when preparing strategic documents. As a result, formal public consultation is widely used to inform public investment decisions across national and municipal levels. For example, all strategic documents at the national, regional and municipal levels are subject to public consultation.

For example, the Ministry of Transport and Communication's Integrated Transport Strategy 2030 was developed with advice from a Steering Committee and with input from working groups that represented a wide range of stakeholders. The Integrated Transport Strategy was also informed by three public forums that took place in Sofia during its development.

All EC-funded programmes are informed by 'thematic working groups' and 'monitoring committees', which include representatives from different stakeholder groups. The Council of Ministers determines which institutions and types of organisations can participate in the stakeholder groups, which gives a limited criteria within which these institutions can nominate representatives. It is unclear whether there is a criteria that the Council of Ministers and institutions must follow. While a Programme Monitoring Committee for the stakeholder groups must approve a code of conduct setting out how conflicts of interest will be prevented (Republic of Bulgaria, 2022[4]), it is not clear whether members' conflicts of interest, and the steps to resolve those conflicts, are publicly declared. For the stakeholder groups to have integrity and help build trust between government and citizens, it is important that there is a transparent criteria for selecting a diverse range of representatives and a process for managing any conflicts of interest. The Regional Development Act also specifies that regional development councils must involve stakeholders when selecting projects to receive funding under the Regional Development Programme.

At the municipal level, projects are announced and public consultation exercises are run by the relevant municipality. While all municipal strategies and plans are subject to public consultation, decision-makers have leeway on the extent to which public consultation can inform the final decision. The feedback from public consultations run by line ministries must be made publicly available and are typically uploaded to ministry websites. The Public Finance Act also requires that draft municipal budgets are subject to public consultation, including with input from the National Association of Municipalities. Naturally, there is a tension between the need to deliver infrastructure and ensure public investment decisions are adequately informed by affected parties and that environmental protections are met. Several public bodies tasked with delivering infrastructure described the frequency of appeals lodged by stakeholders on environmental or cultural heritage grounds, resulting in delays to projects and presenting difficulties to infrastructure providers in delivering their programmes. As noted in *Section 4: Coordination Across Sectors*, delays with acquiring land means some infrastructure providers struggle to fulfil the requirements of their permits, meaning they cannot progress with works. Land acquisition gets determined through a court process, which means waiting for a court decision can cause uncertainty about whether a project will happen. Compensation is often paid to landowners, but the proposed amount can be appealed, which requires more time for the courts to reconsider the land acquisition proposal. As noted above, the Spatial Development Act requires larger projects to be divided into sections. While the reasons for this relate to minimizing risk and managing funding, it can mean activities like land acquisition take place in a piecemeal manner, which can cause delays and uncertainty about the delivery of projects. The Ministry of Transport and Communications have proposed legislative changes to overcome this.

Protection of archaeological sites is a frequent cause of delays to the approvals process. Projects are being delayed by up to two years due to archaeological findings. Part of the issue is resource constraints – often there are too many permit applications for the number of people available to manage them in a timely fashion. Not only are staff numbers limited, but they are having to be trained 'on the job' while completing complex environmental assessments. This is a particularly significant issue for smaller municipalities, where staff are more constrained. Resourcing constraints may make it difficult to implement the Recovery and Resilience Plan in a timely manner, given it will bring new projects and therefore additional applications for new environmental permits. The larger municipalities tend to be better resourced, which has led to suggestions that municipalities should consolidate. However, being bigger is not always better: larger municipalities in Bulgaria can experience a lack of internal coordination. The section on Sharing of Services (Vertically and Horizontally) in *Section 4: Coordination Across Sectors* outlines the discussion within Bulgaria on the consolidation of municipalities and provides some matters to consider.

For specific projects, the findings from public consultation inform environmental impact assessments (EIA), which are a legal requirement for most infrastructure development and are assessed by the Ministry for the Environment and Water. In response to complaints about the time delays and costs imposed by engaging stakeholders and undertaking public hearings, the Ministry of Environment and Water say that while the EIA process can be long and thorough, it is an important step because it gives confidence to society that infrastructure providers are operating within environmental parameters. They argue that by allowing sufficient time and with good planning, infrastructure providers should benefit from the process. Helpfully, the Spatial Development Act specifies a tight definition of who public infrastructure providers must consult with. While the definition is open to interpretation, typically infrastructure providers are only legally obligated to consult with stakeholders who own land that is directly affected by their proposals. The judiciary decides whether an appeal is admissible. This can help reduce the number of appellants and ensure legal challenge is only granted to parties who are genuinely affected by a proposal, rather than those less directly affected who may oppose an activity on, for example, ideological grounds.

There are examples in Bulgaria of highly creative and thorough public participation processes. One example is the Sofia Municipal Council's process for developing *Vision for Sofia 2050* (Sofia Municipal Government, 2017[5]). Public participation included a series of public discussions, over 400 interdisciplinary meetings, wide use of social media, the use of surveys, a 'hackathon', extensive gathering of evidence and data from a wide range of sources, public exhibitions and other initiatives designed to attract as wide a catchment of stakeholders as possible. For the last two years, Sofia has also allocated approximately EUR 750 000 of the municipality's annual budget to projects that citizens have voted for.

In all municipalities, the public must have been consulted on all budgets before they can be adopted. While the process for doing this across municipalities may vary, one municipality described how they invite proposals from citizens and representatives of settlements within the municipality, which they then discuss at the community level. This informs the composition of the following year's budget.

While some members of the community are more engaged than others, generally public participation processes are effective at reflecting the preferences of people from all demographics and age groups. This is achieved by municipalities being as accessible as possible, such as by holding weekly open days and active use of social media.

Across the three municipalities we met on mission, which varied considerably in size, the municipalities had tailored their stakeholder engagement activities to what appears an appropriate level given the population size and scale of each municipality's investment activities. For example, in Slivnitsa, a municipality of fewer than 10 000 people, municipality staff are highly attuned to the needs and views from within the community, which means they are less reliant on the formal, structured public participation exercises that larger municipalities might need to capture a wide cross-section of views from the community.

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Public Investment in Bulgaria

PLANNING AND DELIVERING INFRASTRUCTURE

This report outlines the findings of a review of public investment processes in Bulgaria and provides recommendations for improving its effectiveness and efficiency. It focuses on infrastructure planning, investment and delivery at the national and municipal levels. The report identifies what Bulgaria should retain and improve upon to ensure that investments made at the European, State and municipal levels achieve value for money and contribute to people's well-being and living standards.

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