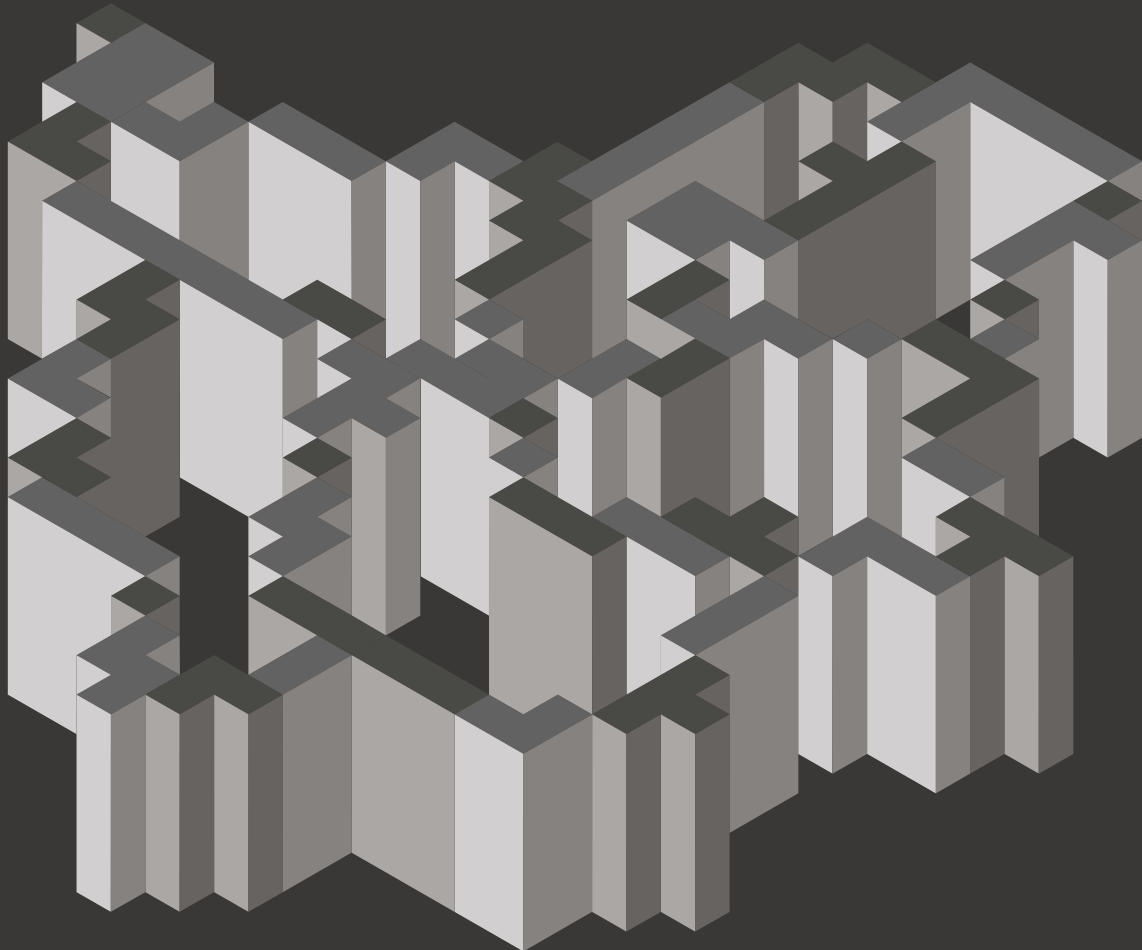


Programme for Development
of the Regions 2021 – 2027

AN ANALYSIS
OF THE POSSIBILITIES
TO IMPLEMENT TERRITORIAL
INSTRUMENTS



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of the Regions 2021 – 2027**

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The Government of Bulgaria's programming process is evolving, and this report captures the status as of October 2020 to the extent possible.

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The report was prepared by a team led by Joanna Masic, Senior Urban Specialist (Task Team Leader). The report was authored by Grzegorz Wolszczak (Urban Development Specialist) and Anna Banaszczyk (Senior Regional Planning Specialist) with contributions from Atanas Kirchev (Senior Legal Consultant), Aleksandar Hinov (Senior Financial Specialist) and Zdravko Petrov (Regional Development Specialist), and inputs from Yana Georgieva (Senior Public Administration Specialist), Dobrinka Karadzheva-Nedkova (Public Administration Specialist), Maria Raytcheva (Public Administration Specialist), Daniela Ivanova (Public Administration Specialist), and Solene Dengler (Urban and Regional Analyst). Administrative support was provided by Albena Samsonova.

Country Manager: Fabrizio Zarcone
Practice Manager: Christoph Pusch
Task Team Leader: Joanna Masic
Authors: Grzegorz Wolszczak and Anna Banaszczyk

ABBREVIATIONS AND ACRONYMS

CCTA	Coordination Council for the Territorial Approach
CCU	Central Coordination Unit
CLLD	Community Led Local Development
COM	Council of Ministers
DIC	District Information Center
EC	European Commission
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FG	Focus Group
GDP	Gross Domestic Product
GOB	Government of Bulgaria
ITI	Integrated Territorial Investment
ITSD	Integrated Territorial Strategy for Development
MA	Managing Authority
MRDPW	Ministry of Regional Development and Public Works
NAMRB	National Association of Municipalities in the Republic of Bulgaria
NCSO	National Concept for Spatial Development
NSI	National Statistics Institute
NUTS	Nomenclature of territorial units for statistics
OECD	Organization for Economic Cooperation and Development
OP	Operational Programme
OPRG	Operational Programme for Region in Growth 2014–20
PA	Priority Axis
PA1	Priority Axis 1 of PDR 2021–27
PA2	Priority Axis 2 of PDR 2021–27
PDR	Program for Development of Regions 2021–27
PIDM	Plans for Integrated Development of Municipalities
PSU	Project Selection Unit
PSC	Project Selection Committee
RAS	Reimbursable Advisory Services
RDA	Regional Development Act
RDC	Regional Development Council
RDP	Rural Development Program 2014–20
SPARD	Strategic Plan for Agriculture and Rural Development 2021–27
WB	World Bank

EXECUTIVE SUMMARY

This report is one of the outputs prepared by the World Bank (WB) team for the Ministry of the Regional Development and Public Works (MRDPW) within the framework of a reimbursable advisory service (RAS) on Regional Development. The aim of the report is to analyze and review the opportunities to implement integrated territorial interventions in Bulgaria during the 2021–27 programming period. This report summarizes key analyses performed by the WB team within the scope of the RAS with regard to the new integrated approach for territorial development designed by the MRDPW. Some of the analyses have been shared with the Ministry in a series of notes and other reports delivered under the RAS. This report also includes additional analyses and recommendations pertaining to new aspects of the integrated approach, which is continuously being developed and refined by MRDPW together with other stakeholders as part of the ongoing programming process.

Integrated territorial interventions, if well planned and implemented, can have a positive impact on addressing inter- and intra-regional inequalities. As such they are being promoted and adopted as a regional development tool across European Union (EU) member states. Experience so far across EU member states suggests that there have been significant updates to new territorial strategies that have encouraged innovative approaches in the form of more integrated interventions, at different spatial scales, and using more collaborative models of governance.¹ The use of territorial strategies and the links with programming are still a work in progress but there are

early lessons from other countries relevant for Bulgaria.

The premise of the integrated territorial approach is that multi-sector interventions delivered by partnerships (partnership principle) should be designed and implemented together (thematic integration) and tailored to the specific needs of individual territories (territorial dimension) to unlock their development potential. In this document, such investments are called ‘integrated interventions’ or ‘integrated investments’. Since the bottlenecks to growth in EU regions have multiple root causes, any response to them needs to be addressed in a comprehensive way and thus will be inherently multi-sector in character. Integration of different sector interventions into a single and comprehensive intervention that targets the needs of a specific territory can also help break sector silos that often are implemented via generic tools without any connection to other sectors. Moreover, the collaboration of stakeholders, and in particular local stakeholders, is a crucial element of the integrated approach, because comprehensive solutions often lie beyond the capacity of a single institution and need to be developed following both a bottom-up and a top-down approach.

Bulgaria is home to some of the EU’s poorest regions, with five out of its six NUTS 2 regions considered lagging due to their low-income status. Previous Government of Bulgaria (GOB) and EU funding have failed to adequately address regional inequalities in Bulgaria. GOB is therefore looking to devise a new era of regional development funding that will program integrated territorial interventions targeted at the root causes of the individual growth bottlenecks in each region. The plan is for a radically new approach that will allow packages of projects based on regional needs, identified under newly developed regional strategies, to be funded from different Programs under the European Structural and Investment Funds (ESIF). These integrated territorial strategies for development (ITSDs) are envisaged

1. Integrated territorial and urban strategies: how are ESIF adding value in 2014–2020? European Policies Research Centre (2017).

as an intermediate and connecting strategy between national sectoral policies and programs, from which they draw, and plans for integrated development of municipalities (PIDMS), for which they set forth the regional development framework the PIDMS should reflect.

This report reflects the GOB's current thinking about the integrated approach to territorial development as of October 2020. It does not aspire to describe the final result of the government's planning process, which is ongoing and subject to change. Since the design of the approach is dynamic and involves many stakeholders, not all aspects of the approach were defined or formalized at the time of preparing this report.² Moreover the approach is likely to continue to evolve. This report pinpoints key parts or 'nodes' of the implementation system of the integrated approach that will influence its future functioning and then offers recommendations that should facilitate further work on further designing the approach and putting it in action.

The introduction of the integrated approach to territorial development and streamlining territorial investments into sectoral programs at the scale planned by the GOB (EUR 2.2 billion, representing almost a quarter of the participating programs' budgets³) is ambitious and commendable. The proposed reform introduces significant changes to the institutional and organizational dimensions of regional policy planning and implementation for all stakeholders and beneficiaries. It also brings to the fore the use

of integrated instruments as a key tool for achieving regional development policy goals. The resources identified for the integrated approach will come from combining the resources of eight programs: the Program for Development of Regions 2021–27 (PDR), five selected sectoral Programs, as well as from the Strategic Plan for Agriculture and Rural Development (SPARD) and the Maritime, Fisheries and Aquaculture Program⁴. These, except PDR, are referred to in this Report as "contributing Programs"⁵.

PDR provides its full budget to the approach, and five other Programs earmark 10 percent each of their allocations.⁶ PDR is divided into two priority axes (Figure E.1). Priority Axis 1 (PA1), targets the 10 largest urban municipalities with a budget EUR 0.4 billion. PDR Priority Axis 2 (EUR 1.1 billion) offers financing to the remaining 40 urban municipalities. PDR under PA1 and PA2 will also support investments in rural areas for industrial zones, national road infrastructure, sustainable urban mobility and healthcare infrastructure if these are part of an Integrated Territorial Investment (ITI) concept. SPARD will provide resources for infrastructure projects of rural municipalities that will participate in integrated investments under PA2. The funding from five out of the seven contributing Programs (EUR 0.6 billion), which complements PDR PA2 resources, will be made available to both the 50 urban municipalities and the participating rural municipalities⁷. While both priority axes allow a similar thematic scope of interventions, they will offer different types of projects to beneficiaries governed by different selection procedures and managed by a different institutional framework.

2. The Council of Ministers' Decree on integrated instruments is not in place. The Partnership Agreement and Operational Programs are in early stage of planning with regard to the integrated approach.

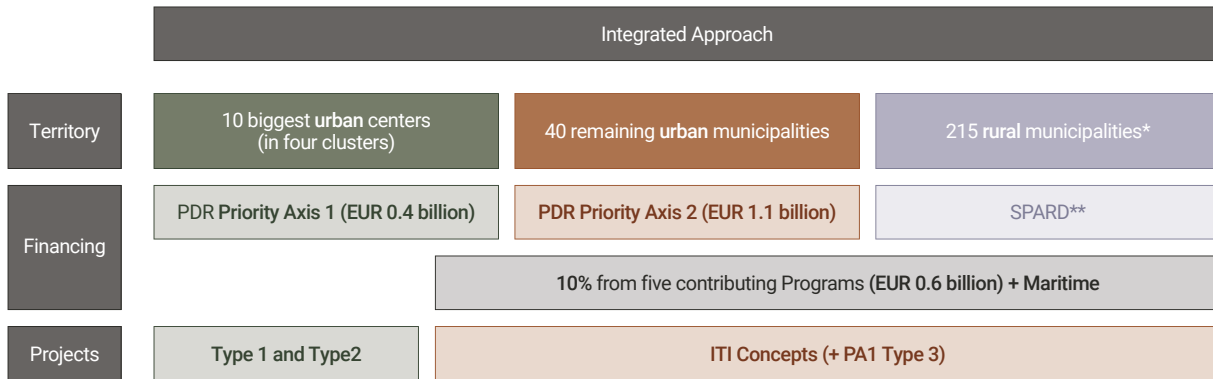
3. The amount of EUR 2.2 billion corresponds to EU co-financing only. It represents 23 percent of the overall allocation for the participating programs. This amount does not include the expected contributions from the budgets of SPARD and the Maritime, Fisheries and Aquaculture Program 2021–27, since they are not currently defined. All figures in this report regarding the budget refer to the EU co-financing only.

4. SPARD is a successor of the Rural Development Program 2014–20.

5. The total eight programs are the following: PDR; Competitiveness and Innovation; Human Resources; Education; Research, Innovation and Digitalization; Environment; Maritime, Fisheries and Aquaculture; and SPARD. The term 'contributing programs' in this report excludes PDR, which is treated separately as the main financial contributor. Depending on the context, 'contributing programs' may then refer to i) five sectoral programmes that are known to contribute at least 10 percent of their budgets, ii) five plus the Maritime program ('six contributing programs'), and iii) six plus SPARD ('seven contributing programs').

6. Details about the SPARD and Maritime Program's contributions still need to be published.

7. More details in sections 1.5 and 4.5.

FIGURE E.1 Integrated approach – overall structure

* Rural municipalities will also be able to obtain financing from PDR under priority axes 1 and 2 in the following areas: industrial zones, national road infrastructure, urban mobility, and healthcare infrastructure if these are part of ITI concepts.

** SPARD – Strategic Plan for Agriculture and Rural Development; Maritime Program – Maritime, Fisheries and Aquaculture Program 2021 – 27.

Source: Authors

GOB's intent is to enhance regional cohesion by counteracting the socio-economic trends, which have led to growing disparities among Bulgarian regions, which are driven by a monocentric growth pattern centered around the capital city, Sofia. The new integrated territorial approach significantly modifies the framework of the strategic planning for regional development at the national, regional and local level (see Chapter 3), which influences the identification of territorial investments for the 2021–27 planning period (Chapter 2), and shapes a new implementation system and investment modalities at the regional level (Chapter 4).

The enhanced role of the Regional Development Councils (RDCs) and broad utilization of integrated territorial interventions are two key pillars of the reform.⁸ Under the PDR Priority Axis 2 (PDR PA2) (territorial investments), RDCs will exercise new functions and will be revamped into two-tier bodies with a managerial (political) and a technical (expert) level. For the first time, they will be involved in the process of selecting packages of integrated projects (i.e. ITI concepts) and supporting prospective beneficiaries in the application process. RDCs will have three units with separate tasks (see Chapter 4). They will not have dedicated budget or their own staff; staff will be nominated

from other institutions. ITI concepts will be bundles of interventions (sets of individual projects) with a common development goal covering a specific area (territory) and generating positive regional impact. They will be designed and implemented by partnerships of various stakeholders (ITI partnerships), which are an obligatory element of the new approach. The three types of integrated investments financed from the PDR PA1 (urban investments) will follow a different process.

Embedding RDCs and integrated territorial interventions requires the remodeling of the system for EU funds management in Bulgaria, the latter being a network of parts or processes that closely interact with each other. The interconnected character of the system of implementing EU funds and the multi-dimensional nature of the territorial development means there is a need to rebalance the whole system when new elements are introduced. That applies to both strategic and operational dimensions. The former refers to the national regulatory and planning framework, issues of multi-level governance between government levels, and interjurisdictional collaboration between municipalities. The latter refers to a plethora of technical details related to programs, shaping of new institutions, describing tasks and functions, coordinating mechanisms, establishing

8. In this report the term 'integrated territorial investment' (ITI) is used in the sense of the 'another territorial instrument' as defined by the EU's Common Provisions Regulation.

new procedures, conducting information campaigns, building the capacity of stakeholders, adjusting IT systems, creating new monitoring and evaluation (M&E) frameworks etc. The integrated approach will affect a broad array of institutions because its defining feature is to cut across sectors and administrative boundaries. Its success will depend on the effectiveness of the entire interconnected implementation mechanism that will eventually be set up.

The new integrated territorial approach has good potential to contribute to building stronger and more resilient regions in Bulgaria. It primarily focuses on supporting the 50 urban municipalities, while it also offers opportunities to the remaining 215 rural municipalities. The Draft Partnership Agreement states that rural municipalities, which are the least advantaged territories in Bulgaria, will also be able to take advantage of the potential of the integrated approach as SPARD is to mirror infrastructure measures that are envisaged under PDR for urban municipalities. The new approach promotes several promising developments such as a focus on specific (territorial/local) needs, more holistic (strategic) planning, engagement of a broad set of local stakeholders (networking, coordination, trust building, multi-level governance), coordinated multi-sector investments that help use resources more effectively, capacity building of local stakeholders, etc. These have potential to reinforce growth in urban municipalities (see details in Chapter 1 and Annex 1).

Introduction of the integrated territorial approach and the restructuring of RDCs could also become the first step on a path leading to stronger regionalization of development policy in Bulgaria. With this end in view, the long-term development of RDC capacity and functions matched with their stronger institutionalization (i.e. future provision of a permanent budget and staff) could constitute the next steps in this longer-term process in developing territorial bodies in Bulgaria.

The approach also bears risks related to its complexity, novelty, scale and timeframe for implementation. These risks could potentially undermine the ability of the integrated

approach to reach its two strategic goals, namely i) generating territorial impact and delivering expected developmental outcomes; and ii) effective absorption of the 2021–27 EU funds. A valid question in this regard is whether the integrated approach can be expected to solve the key challenges faced by Bulgarian regions. The infrastructure gap (visible in the lack of or insufficient roads networks and water, wastewater and sewage systems etc.), especially in poorer and less developed areas, is one of them. Such deficiencies may also require a combination of territorial (bottom-up) and sectoral (top-down) policies to be fully addressed. All in all, the breadth, depth and novelty of the reform, and the multitude of engaged stakeholders will pose challenges to its further planning and implementing. Additionally, a limited timeframe to design and prepare for implementation does not leave much space for iterative testing, feedback gathering from stakeholders, and polishing proposed solutions. The approach should be operational at the start of the next EU programming period (January 2021), although the start is already delayed. This calls for embedding a strong M&E system from the get-go to enable quick feedback loops and fine tuning of identified shortcomings. To remedy this set of challenges, the GOB relies on its experience with introducing previous integrated instruments and good international practices. A selected number of these are presented in Annex 2.

Ramping-up the administrative and institutional capacity of institutions engaged in implementing the approach is a key recommendation of this report. International and Bulgarian experience, as well as feedback from stakeholders, indicate that higher institutional capacity will be vital for the successful development and implementation of integrated projects. Training needs as a result will be significant. Enhanced capacity will be necessary for both engaged institutions and prospective beneficiaries. For instance, i) RDCs will need to be ready to start fulfilling completely new and important roles in preparing and selecting ITI concepts, ii) in the ten biggest urban municipalities new units will be established for the first stage evaluation of project proposals, iii) Managing Authorities (MAs) will need to be able to coordinate their activities related to managing their Programs, preparing and

managing calls for applications, issuing complementary user's manuals and implementation guidelines, training beneficiaries, monitoring the preparation and implementation of ITIs etc., iv) CCU will facilitate coordination among MAS, prepare modifications to the IT system for managing EU funds (UMIS), and should also be able to monitor the progress of the overall implementation of the integrated approach—in this regard, the WB team recommends establishing a national level coordination body, a Coordination Council for the Territorial Approach (CCTA).

Beneficiaries of EU funds will need to demonstrate a new level of capacity to generate quality integrated projects and to implement them. Prospective applicants will need relatively sophisticated administrative capacity to put forward high quality and comprehensive package of projects. They will need to understand the functioning of the integrated territorial approach; be able to not only conceptualize more complex multisectoral and territorially integrated projects, but also create lasting partnerships; fulfill more prerequisites (from different funding sources) and follow guidelines from different MAS; and implement integrated interventions in a technically- and financially sound manner. All this will require more human and financial resources as well as technical capacity. Beneficiaries will need to develop this capacity in a short time to be able to start preparing ITI concept applications from the very beginning of the new programming period to ensure timely contracting and disbursement of EU funds.

The WB team recommends establishing a central Advisory Hub to provide professional, standardized, and regular training, along with targeted advisory support, as a possible suitable way to support prospective applicants. The beneficiaries' ability to tap into funding from the integrated approach from the very start will be a key performance indicator of the reform. The speed of early disbursement will be even more important during the 2021–27 period, because the overall timeframe for investing EU funds will be one year shorter than during the current perspective (n+2 rule). Without quick absorption, the integrated approach will not be able to demonstrate the ability

to achieve its intended goals, which could undermine the introduced policy reform.

A second key recommendation of the WB team is the need to further streamline the ITI selection process and adopt selection criteria that support the selection of impactful ITIs and strong sustainable ITI partnerships. The currently envisaged process of selecting integrated projects could be further simplified. There are different selection approaches for the different types of projects (see Chapter 1 and 4) under the PDR's two Priority Axes, which might prove difficult for beneficiaries to navigate. The criteria and processes of selecting integrated projects will need to be transparent and objective and it will be important to promote a technical and merit-based assessment of applications. Since the discussions with the European Commission (EC) are ongoing there are still uncertainties about arrangements for the other participating Programs for 2021–2027, and the Partnership Agreement for 2021–2027 more broadly. In addition, the planned Council of Ministers' (COM) decree, which is expected to, among others, set out the arrangement amongst MAS for the integrated territorial approach is still to be elaborated. Therefore, it is not yet clear what the coordination of the selection process, nor the implementation and monitoring between MAS, will look like. Close collaboration of MAS at the planning stage of respective Programs and their technical solutions in the form of a technical working group for the new integrated territorial approach will be important

It will be important to set out effective coordination mechanisms for MAS and other stakeholders to ensure the smooth management of the integrated territorial approach. MAS of contributing programs have limited experience in collaborating in integrated projects. Most experience to date relates to the Community-Led-Local Development (CLLD) and Cross Border Cooperation (CBC) projects that have a much smaller scale and budget than the envisaged integrated interventions (ITI concepts in particular). Hence the COM's decree is expected to shape the mechanism for MAS' collaboration and will be one of the key building blocks of the implementation system. It is currently being drafted

by an inter-ministerial working group and is not available yet for review.

Introducing more targeted measures in the PDR 2021–2027, including the possibility to finance investments for basic infrastructure in regions to close the infrastructure gap, could potentially enhance the developmental impact of the new approach. GOB shows a strong commitment to the new approach and plans to devote a majority of the EU funds related to the Policy Objective 5 under the PDR to the integrated projects. By doing so, GOB aims at solving key developmental obstacles these territories face. However, some of the needs, such as basic infrastructure gaps, could be more effectively and efficiently addressed by more targeted sectoral policies and simpler instruments (simple, non-integrated projects), which would be

easier to implement for both beneficiaries and MAS. Considering the possibility to finance them under the PDR through individual projects could be a solution.

GOB have invested great effort to conceptualize the integrated territorial approach and prepare for its implementation. Many aspects have been already pre-designed, discussed and consulted. Further work will be required to finalize this design stage and shift into the implementation mode. Table E.1 offers an overview of key milestones that will be vital for the implementation of the integrated territorial approach together with the current status of each milestone. The table could be used as a simple method for monitoring the status of the approach and can be expanded with additional data depending on information needs.

TABLE E.1 Checklist of key milestones for preparing and implementing the integrated territorial approach

Item	Status
RDA and RDA Rules of Implementation	Done
COM ITI Decree	Pending (outline of contents proposed by the WB)
Formation of new RDCs (letters of appointments)	Ongoing (draft operational documents prepared by the WB)
Partnership Agreement	Pending (first draft ready)
Draft Programs (demarcation line)	Pending (second drafts ready, further elaboration of the approach required)
Adoption of ITSDS	Pending (ITSDS drafted by the NCTD)
Adoption of PIDMS	Pending
Financial arrangements of the integrated approach	Pending
Selection criteria for PA1 and PA2	Pending (draft proposed by the WB)
User's Manual for PDR	Pending (draft of ITI User's Manual proposed by the WB)
Methodological guidelines for beneficiaries under PDR PA1 and PA2	Drafts are published, selection criteria are pending
Launching a broad information campaign for prospective applicants	Pending
Rolling out a systemic capacity building program for RDCs, MAS and other entities responsible for the approach implementation	Pending
Designing and implementing a systemic capacity building program for prospective applicants and beneficiaries	Pending
Procedure for ensuring compliance with state aid rules and procedure for selecting economic operators within the initiation phase of the ITI concept	Pending
Setting up CCTA to facilitate coordination and monitoring of the approach implementation	No information available
Adaptation of UMIS to allow monitoring of the integrated approach	No information available
Establishing a monitoring and evaluation framework of integrated approach to track progress and assess effectiveness	Pending

This report has the following structure. Chapter 1 provides information about regional disparities in the country and EU's support for territorial instruments that are followed by EC's guidance to Bulgaria on regional development policy. Consequently, the rationale of, and key considerations for, the approach are presented and an overview of the new approach itself. **Chapter 2 discusses the development needs of Bulgaria's six NUTS 2 regions** and **Chapter 3 reviews the strategic planning framework** for the integrated investments in Bulgaria. **Chapter 4 constitutes the core section of the report and it analyzes the GOB's proposed integrated territorial approach**, highlighting its strengths, potential risks, and

provides recommendations that could help implement the approach. **Chapter 5 discusses implications of the COVID-19 pandemic** for regional development policy. Finally, **Chapter 6 closes with the key conclusions and recommendations.**

The annexes review the EU framework for the implementation of territorial instruments and describe experiences from implementation of integrated instruments in Bulgaria and other countries.

While the report can be read as a standalone document, it does not reflect all detailed considerations presented in prior analyses and other deliverables under this RAS.



CHAPTER 1

INTRODUCTION

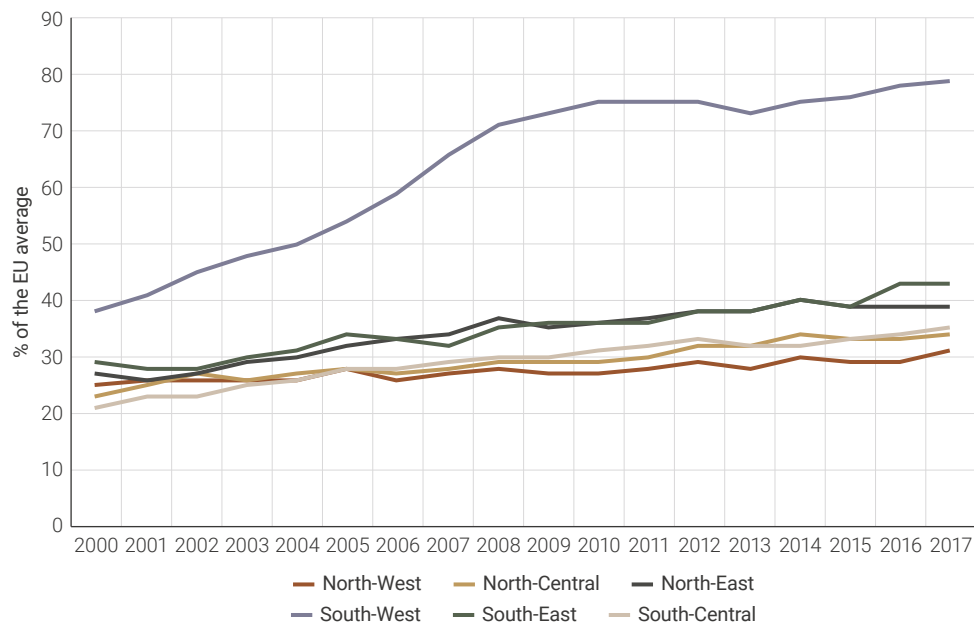
Bulgarian regions keep growing, though disparities linger

Although potential GDP growth has strengthened in recent years, this has not translated into a rapid catching-up process at the regional level. In addition to having the lowest GDP per capita in the EU (53 percent of the EU-27 average as of 2019)⁹, Bulgaria is also home to some of its poorest regions. Five out of six NUTS 2 regions in Bulgaria are considered lagging due to their low-income status¹⁰, with the Northwest region consistently displaying the EU's lowest level of GDP per capita at only 34 percent of the EU-28 average, and North-Central and South-Central regions not far behind with just 35 percent and 36 percent respectively (Figure 1.1)¹¹. According to the most recent EC Country Report 2020, Bulgaria has been slow to catch up with the rest of the EU and still has one of the highest levels of poverty and income inequality.

Regional disparities observed across Bulgaria continue to be recognized by the EC as one of the key challenges that require an adequate policy response. The concentration of economic activity in and around the capital region of Sofia (South-West region) is a prominent and durable socio-economic phenomenon, with the region generating 47 percent of national GDP, and recording a per capita GDP level double of that of other Bulgarian regions.

Regional disparities are also visible in other dimensions. The 2019 European Regional Competitiveness Index shows that the capital region significantly stands out on every dimension of competitiveness (Figure 1.2). The remaining regions score below the country's average on most of three sub-indices, that is 'efficiency dimension' (higher education and lifelong learning, labor market efficiency and market size), 'basic dimension' (quality of institutions, infrastructure, health and basic education), and the 'innovation dimension' (technological readiness, business sophistication and innovation).

FIGURE 1.1 Evolution of GDP per capita in PPS among Bulgarian NUTS 2 regions



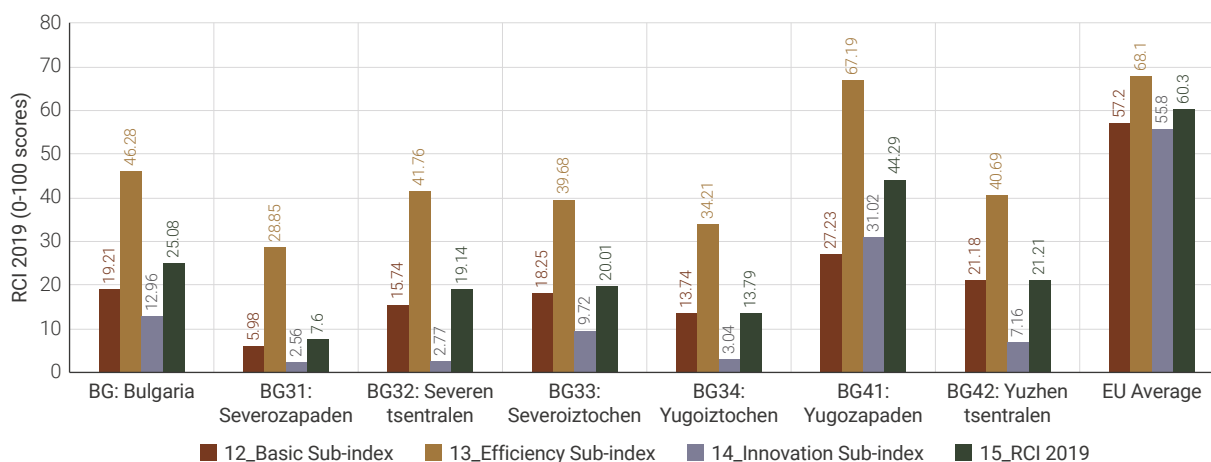
Source: European Commission

9. Eurostat, June 2020 https://ec.europa.eu/eurostat/statistics-explained/index.php/GDP_per_capita,_consumption_per_capita_and_price_level_indices

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11. EUROSTAT, 2018 and Eurostat Press Release: Regional GDP per capita in EU regions, March 5, 2020. <https://ec.europa.eu/eurostat/documents/2995521/10474907/1-05032020-AP-EN.pdf/81807e19-e4c8-2e53-c98a-933f5bf30f58>

FIGURE 1.2 European Regional Competitiveness Index 2019 for Bulgaria and EU average (overall RCI score and three sub-indices)



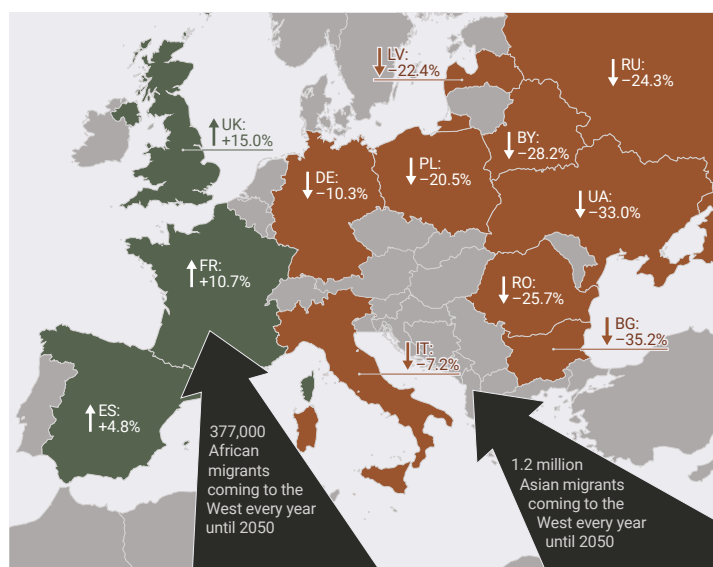
Source: European Regional Competitiveness Index 2019

Demographic developments also heavily and negatively influence regional trends in GDP per capita. The NUTS 2 regions that were most affected by demographic changes are North–West (-29 percent) and North–Central (-23 percent). These trends translate into a shortage of workers in the local labor market, especially those with higher skills. Bulgaria's population is predicted to shrink by 35 percent between 2007 and 2050, the fastest depopulation rate in Europe (Figure 1.3).

Bulgaria's location makes it particularly vulnerable to the effects of climate change, mainly through temperature increase and extreme precipitation, resulting in increasing occurrence of droughts and floods. The risks inflicted by climate change-related events may significantly affect economic growth and prosperity, both nationally and on a transboundary basis in future. All sectors of the economy are expected to be affected by the anticipated changes. Climate change impacts do not affect all people and territories equally due to different levels of exposure, existing vulnerabilities, and adaptive capacities to cope. The risk is greater for the segments of the society and businesses that are less prepared and more vulnerable.¹² Bulgaria

is also exposed to seismic hazards with the south-west (including Sofia), south-central, and north-east regions at risk of seismic events (as well as Tsunami's from the Black sea) that could negatively impact both national GDP and regional development.

FIGURE 1.3 Europe's population change (2007 – 2060) and predicted immigration patterns



Source: United Nations quoted in *Horizon 2030 Demographic Tendencies in Bulgaria*, Friedrich-Ebert-Stiftung, 2018, <http://library.fes.de/pdf-files/bueros/sofia/15329.pdf>

12. World Bank, Draft National Climate Change Adaptation Strategy and Action Plan for the Republic of Bulgaria, 2019, <https://www.moew.government.bg/en/climate/international-negotiations-and-adaptation/adaptation/>

Finally, the economic outlook for Bulgaria is heavily impacted by the implications of the COVID-19 pandemic, as the country's real GDP is projected to contract by over 7 percent in 2020.¹³ Retail, transport, hotels and restaurants, art and entertainment sectors are among those that were hit hardest by anti-pandemic measures leading to substantial reduction of their operating capacity. The negative spillovers of the pandemic response in Bulgaria and in the whole region are still difficult to assess. The impact of COVID-19 will most likely have a regional dimension, as specific sectors—such as tourism—are predominant in specific parts of the country.

The EC indicates that broad-based structural reforms and additional investments are needed to boost productivity and achieve sustainable and inclusive growth. A better business environment, accurate identification of investment needs in green technologies and sustainable solutions to deliver on climate and energy objectives, better transport, energy and environmental infrastructure are all needed to strengthen Bulgaria's competitiveness and boost investments. Major productivity gains can also be generated through more and better targeted investments in digitalization and in R&D.

BOX 1.1 Expected added value of ITIs

- **Strategic dimension** (integrated strategies for territorial development): strengthening synergies between different strategic frameworks by bringing together investment priorities and developing a comprehensive, multi-sectoral strategy for a given territory
- **Financing dimension** (operational programs): combining different funding streams to create critical mass and facilitate coordinated investment in territories
- **Territorial dimension** (NUTS 2 regions): strengthening focus on functional areas to ensure tailored, place-based policy responses for a given territory
- **Operational dimension** (ITI beneficiaries): enabling the elaboration and implementation of more complex and tailored sets of integrated projects through the multi-fund approach and thanks to enhanced administrative capacity
- **Intangibles** (culture of cooperation): building mutual trust, promoting sustainable cross-sectoral and interjurisdictional cooperation, creating a sense of shared ownership and responsibility for joint development efforts at the regional level

Source: Authors

European Union advocates territorial instruments to overcome disparities¹⁴

The current EU programming perspective 2014–2020 marked the inclusion of territorial instruments into the mainstream of EU development policy and the 2021–27 programme perspective reinforces this direction. Territorial instruments became an obligatory and prominent part of investments supported by ESIF. It was preceded by the introduction of territorial cohesion as one of the fundamental aims of the European Union in the Lisbon Treaty of 2007. Stronger focus on specific territory were to make sectoral policies more impactful and capable of making a lasting positive difference for development prospects. For the 2021–27 period, a dedicated territorial policy objective 'A Europe closer to citizens' was included in the set of five consolidated overarching EU development objectives to further highlight the need for more territorially impactful development interventions.

The aim of the 'territorialization' of development policy instruments is to promote inclusive and sustainable growth of territories by tailored interventions that strengthen their individual endogenous potential and help solve challenges in their individual context. This marks a shift towards a policy response that is more sensitive and responsive to the individual characteristics of territories and away from a one-size-fits-all approach.

The integrated approach is also to stimulate more flexible and innovative policy governance approaches, and capacity building of broader range of involved stakeholders. Integrated instruments were to encourage multi-level governance, involve broader groups of stakeholders into planning, implementation and monitoring of territorial development instruments, and facilitate creation of new functionally based partnerships. See Box 1.1 for more details.

13. EC, Spring 2020 Economic Forecast.

14. Annex 1 presents more details about the legal framework of the territorial instruments in the EU and European experience with this approach, its promises, challenges and lessons learned.

The European regulatory framework defines three forms of support for integrated territorial and local development. First, integrated territorial investment, when a territorial strategy receives funding from multiple priorities, programs, funds or policy objectives. Second, community-led local development (CLLD), when a local strategy is designed and implemented using an exclusively bottom-up approach. Third, ‘another territorial tool’ supports integrated initiatives designed by the Member State for investments programmed for the European Regional Development Fund (ERDF) under the policy objective 5.

Preparation of territorial and local development strategies is a prerequisite for accessing EU funds devoted to territorial instruments. The Common Provisions Regulation (CPR) prescribes specific technical and procedural aspects concerning these strategies with regard to i) their contents, ii) their ownership by relevant territorial authorities/bodies, and iii) involvement of relevant territorial authorities/bodies in selecting investments compliant with these integrated territorial strategies (see Annex 1 for more details).

The territorial approach must fulfil two minimum requirements to use EU funds. Investments must be based on integrated territorial or local development strategies (multi-sectoral, multi-stakeholder, optionally multi-territorial) and a relevant local or territorial body shall select or shall be involved in the selection of operations (multi-level, optionally community-led).

EU provided Bulgaria with the following guidance

The regular dialogue between the GOB and EC indicates three areas regarding regional policy and territorial instruments that require the country’s attention. These are i) policy design that is more spatially sensitive

(or less sectoral-driven), ii) enhanced targeting of investments and iii) strengthening institutional capacity. The below section provides an overview of key themes pertaining to these three topics.¹⁵ This dialogue reflects on experience from the 2014–20 period and suggests lessons for solutions proposed for the 2021–27 period.

Policy design

Regional policy planning, implementation and coordination have scope for improvement. The EU has signaled that limited administrative capacity and insufficient data availability undermine credible assessment of the effectiveness and quality of implemented support measures and investments. These gaps also weaken the prospects for more evidence-based policymaking and more adequate policy responses. To address these, the EC provided guidance to GOB that is presented in Box 1.2.

BOX 1.2 EC’s guidance to Bulgaria on policy design

- **The link between the macroeconomic and structural conditions (European Semester) and regional development (Cohesion Policy) should be strengthened.** Unfavorable macroeconomic and structural framework can undermine the effectiveness of territorial investments and the benefits they can bring to the citizens. This means that even well-targeted investments cannot produce optimal and lasting development outcomes if not reinforced by adequate improvement of framework conditions.
- **Economic activity poles need to be further developed to enhance convergence between regions and create the linkages with the surrounding areas.** Not only the major urban areas should be supported as important drivers of growth, but also the development potential of smaller cities should be reinforced so they can act as local centers of growth. Ensuring better connectivity among them and to major cities is a key prerequisite if they are to effectively retain or attract people.
- **Innovation-focused smart specialization strategies should be instrumental in stimulating growth.** The regional innovation systems should seek to improve interactions among businesses and between businesses and research institutions.
- **Existing gaps in infrastructure observed in regions should be reduced and major investments should be made in education to attract and retain high quality human resources.** Reducing these gaps, e.g. by improving the road network, in combination with investments in human capital, skills and innovation, will help improve the competitiveness of regions and increase their attractiveness for people.

15. The reviewed documents (prepared by EC services or commissioned by the EC) include: Country Reports 2019 & 2020 (versions published in February 2020, and May 2020) with annexes containing investment guidance for Bulgaria with regard to 2021–2027 programming perspective and the Just Transition Fund; OECD pilot action on frontloading administrative capacity (2019–2020); *Competitiveness in low-income and low-growth regions The lagging regions report* (2017), EC Spring Forecast (2020), EC’s observations on draft Partnership Agreement 2014–2020, EC’s recommendation for a Council recommendation on the 2019 National Reform Program of Bulgaria and delivering a Council opinion on the 2019 Convergence Program of Bulgaria.

Better targeted investments

Investments should help solve problems a territory faces and since territories are diverse, their needs vary, and the resulting investments should reflect this diversity. The least developed areas, such as Bulgaria's North West region and many rural areas have different needs compared to urban hubs and require different support. Such a nuanced, but also more coordinated, approach is expected to pave the way for more territory-sensitive and concentrated investments and help tackle the growing regional disparities in a more efficient way. Box 1.3 provides EC's guidance on investment targeting to the GOB.

BOX 1.3 EC's guidance to Bulgaria on investment targeting

Sectoral investments should be better tailored and coordinated to reflect the individual characteristics of specific territories and more effectively address observed imbalances and support endogenous potentials. EC offered examples of thematic types of investments where more territorial targeting should be applied: research and innovation, transport, water infrastructure, waste, energy infrastructure and energy efficiency, labor market, education system (especially with regard to disadvantaged groups, rural areas and most deprived regions).

Investments should be implemented in line with a needs-based approach to ensure sustainability of results.

Investments should be financially and territorially concentrated to generate the critical mass necessary to achieve measurable improvement. The fragmentation of investments limits the impact of regional policy.

High priority investments should be identified to foster the integrated socio-economic local development of the following types of territories: rural areas (also through CLLD); major urban centers; smaller cities and towns (local growth centers); and regions/areas affected by the transition from the carbon-intensive industry

Complementarities between investments should be reinforced. This in turn requires strong and effective coordination mechanisms across territories, sectors and funding sources – e.g. investments addressing the needs of a specific territory affected by the transition from carbon-intensive industry financed under the Just Transition Fund should complement those under Cohesion Policy to maximize positive development outcomes; it should be considered whether same or similar investments, e.g. a technology park, are needed in neighboring municipalities.

Investments should address to a greater degree the needs of different types of functional areas, and not focus on standard administrative divisions.

Strengthening institutional capacity

The enhanced quality and functioning of institutions would strengthen the economic and social potential of Bulgaria. Bulgaria scores low on quality of governance indices,

such as the European Quality of Government Index, the Worldwide Governance Indicators and the Global Competitiveness Index. The latter ranking assesses that institutions in Bulgaria are the weakest element of its enabling environment (57 out of 100 but on par with its peers in Central Eastern Europe), significantly behind on infrastructure, ICT adoption and macroeconomic stability, respectively 71, 73, 90). According to the European Quality of Government Index, Bulgaria is among the lowest performers together with Italy, Greece, Romania and parts of Croatia and Hungary. This index assesses government performance with regard to three pillars: quality, impartiality and corruption. Bulgarian NUTS 2 regions are among the lowest scoring regions in the EU, with the Northwest, Southeast and Southwest regions ranking respectively at 200th, 199th and 195th place out of the total of 202 European regions represented in the survey.

The quality of the institutional framework for administration and implementation of ESIF in Bulgaria also leaves space for improvement. Enhanced efforts are needed to strengthen the capacity of relevant authorities to deliver policies and strategies for the implementation of the funds, as well as improved coordination between central level stakeholders to ensure integrated service delivery, and greater complementarity of development endeavors.

The administrative capacity of engaged stakeholders (MAs and beneficiaries) is a fundamental factor behind the performance of EU funds. Effective management of the investments process relies on the administrative capacity of Managing Authorities of individual operational programs, as well as of that of a diverse range of stakeholders (local government, SMEs, NGOs, etc.) involved in its implementation. The recent study identified a set of specific challenges faced by the Managing Authority (MA) of the Operational Program Regions in Growth (OPRG) 2014–2020¹⁶. The three main bottlenecks are: i) organizational structure of the MA does not support an efficient work cycle, ii) insufficient application of the bottom-up approach for the

16. Pilot action on frontloading administrative capacity building to prepare for the post-2020 programming period. Roadmap And Diagnosis, OECD, 2020.

purposes of integrated strategic planning and implementation of the OPRG, and iii) insufficiently transparent framework conditions and regulations. The study concluded that efforts to enhance the administrative capacity of not only the MA OPRG, but also key stakeholders (e.g. Regional Development Councils and municipal authorities) are needed for the improved performance of regional investment process. Key recommendations for GOB are presented in Box 1.4.

The quality of investments will directly depend on beneficiaries' capacity to plan and execute projects. Beneficiaries are the backbone of the investment cycle and the adequacy,

efficiency and effectiveness of investments largely rely on their abilities to understand investment priorities, prepare high-quality project proposals, find and convince project partners, implement planned activities in a timely manner and in a foreseen budget. Their insufficient skillset is one of the main obstacles to effective investments and the relevant MAS should facilitate this knowledge and skill gap during the programming and the implementation phase of the 2021–2027 financial perspective. The complexity of the implementation framework foreseen for the upcoming programming period requires the continuous reinforcing of expertise and capacity of beneficiaries, including the prospective ones.

BOX 1.4 Guidance on EU funds management and capacity building of key stakeholders

Horizontal guidance:

- **quality of institutions and regional administrative capacity** should be supported via investments aimed at increasing the efficiency, transparency and accountability of public services, promoting e-government, reducing regulatory red tape, modernizing public **procurement**, and supporting anti-corruption measures and judicial reform.
- **implementation procedures** of the EU funds should be comprehensively **simplified** to eliminate excessive burden for applicants and beneficiaries;
- **public consultations** should be one of the key tools for strengthening the capacity of beneficiaries, stakeholders, social partners, civil society and other bodies to prepare and implement high quality projects, to shape policy, and to build their sense of ownership of development undertakings;
- **public procurement** performance should be improved for more effective implementation of EU funds;
- measures to prevent and address **conflict of interest, fraud and corruption** should be further improved.

Key recommendations with regard to supporting the capacity of beneficiaries:

- **MAS** need to know beneficiaries of OPs they manage and understand their actual capacity at the start of the programming period to **provide beneficiaries with tailored support**;
- operational modalities of offered support schemes should be transparent, procedures clear and unambiguous, processes streamlined and simplified to **avoid excessive burden** for applicants and beneficiaries;
- the process of interacting with and supporting beneficiaries should be streamlined (e.g. by creating a **single point of contact** for beneficiaries throughout the project delivery cycle);
- regular and constant **information exchange** with beneficiaries should be maintained through interactive workshops, networks, online tutorials, etc.;
- **MAS** should be actively partnering with consultants, business chambers, and subnational government associations to **identify capacity needs of beneficiaries and to address them**

Selected key recommendations for MA OPRG:

- a more **bottom-up approach** to project design and implementation should be supported by the MA to help ensure that municipal/local development priorities are sufficiently recognized and effectively funded through the OP, while also building the capacity of local administrations to engage with EU programming and funding opportunities
- the **capacity of local authorities** to implement integrated territorial development strategies should be **strengthened**; MA could begin building capacity for implementing an integrated territorial approach as one of preparatory measures **before the 2021 – 2027** programming period starts.
- **strengthened coordination**^a with line ministries, other MAS, and OP beneficiaries is needed to more effectively tackle territorial imbalances and generate much needed **complementarities** with other types of support measures, effectively integrating sectoral and territorial dimension of regional policy.

a. The issue of ensuring effective coordination has proven to be a significant one for the EC as manifested during the negotiations of the Partnership Agreement 2014 – 2020 with the Government of Bulgaria. MA OPRG planned to support a multi-OP ITI for South West region, but the EC was not convinced that sufficiently concrete coordination arrangements are in place to support its successful implementation. As a result, the ITI in question was not implemented. Source: Observations on the Partnership Agreement with Bulgaria Part I, European Commission, June 2014.

Source: Authors on the basis of Strengthening Governance of EU Funds under Cohesion Policy. Administrative Capacity Building Roadmaps, OECD 2020, <https://www.oecd.org/publications/strengthening-governance-of-eu-funds-under-cohesion-policy-gb71c8d8-en.htm>

Rationale of and key considerations about the integrated territorial approach

The main premise of the new integrated territorial approach is that more complex (integrated) projects that are designed bottom-up have a greater potential to solve the developmental bottlenecks of territories than individual and fragmented projects. Such investments are to be planned and implemented by stakeholders operating in a specific territory (a municipality or municipalities). Hence, the new approach could pave the way for implementing investments tailored to local needs, creating new sustainable and cross-sectoral partnerships across administrative boundaries, promoting multi-level governance, involving broader groups of society in the territorial development, and creating a sense of shared ownership and responsibility for joint development undertakings at the regional level.

Under the new approach, integrated interventions will be territorially focused to generate optimal regional impact. Such targeted territories could be for instance defined based on their joint goals, like solid waste collection, flood management, development of an economic zone. Ideally, they would involve collaboration between more and less developed areas to support the socio-economic development of a broader territory and not only growth centers. That could help address the existing territorial imbalances and contrasts between the highly urbanized and the peripheral territories observed at all levels in Bulgaria. It actually means investments that are split between different locations in larger territories but creating adding value together or investments in one particular territory but with significant regional role and functions.

The approach has the potential to generate added value for Bulgaria and its regions at several dimensions. The integrated nature of investments (intermunicipal coverage, coordinated projects from different sectors, merging different funding sources, implemented

by a partnership of stakeholders) is to allow beneficiaries to flexibly prepare comprehensive projects that are tailored to specific needs of individual territories. There are numerous scenarios for integration of infrastructure and 'soft measures' related to different thematic areas. For example, an integrated intervention related to industrial development could cover technical infrastructure from PDR; support for SMEs from the Competitiveness and Innovation in Enterprises Program; vocational schools related with the needs of the business from the Education Program; water supply and sewerage infrastructure in industrial zones from the Environment Program. An integrated project related to tourism could cover renovation of cultural heritage sites and construction of supporting tourist infrastructure from PDR; training for the staff and mobility of the working force from Human Resource Development Program; and protection of natural zones for protection of biodiversity from the Environment Program.

However, the integrated territorial approach will not be a silver bullet that will solve all regional problems and equalize disparities. Broad-based structural reforms and additional central-level investments will also be needed to boost productivity and achieve sustainable and inclusive growth across regions, especially in the context of adverse demographic trends, considerable shortages of workers, climate change risks, and the previously mentioned basic infrastructure gaps.

The new approach brings a major change to the current system of strategic regional planning, the institutional framework for regional development, and selection and implementation mechanisms of investments (projects). It is to ensure greater impact on regions, especially the lagging ones, thanks to a more bottom-up strategic planning, and selection of integrated investments. Due to its novelty and broad scope, the proposed reform requires introducing significant legal, organizational, institutional, financial, and procedural modifications. These changes should be embedded in the system of EU funds management in Bulgaria prior to the start of the next programming period.

The integrated territorial approach also requires putting in place several other elements that will constitute a system of connected vessels that complement each other. These various elements are discussed in detail in Chapter 4, and they include for instance: the and exact functions of the RDCs, a selection process and criteria for ITI concepts and partnership projects under PAI of PDR 2021–2027 (Type 1b and Type 2 projects), division of financial envelopes between regions, monitoring of actual spending and their potential future reassignment, collaboration among the MAS, capacity building of involved institutions and prospective applicants and beneficiaries, manuals for beneficiaries, upgrading of the IT system (UMIS), financial and substantive monitoring and evaluation of the integrated approach. All these parts are tightly intertwined, and mutually reinforce and supplement each other.

The effectiveness of the new approach will depend on the interaction of all these elements and managing this complexity is the key challenge of the proposed reform.

The quality of the territorial approach and its impact on the regions' growth will depend on the quality of individual elements of the implementation system.

The effectiveness will also hinge upon the ability of the GOB to monitor the functioning and results of the new approach, to quickly identify and fine tune underperforming elements. Implementation of innovative solutions usually faces uncertainties and an effective monitoring system can mitigate some of them, because it feeds evidence-based information into the decision-making process and helps adjusting the implemented solution. For that reason, the ability of the GOB to monitor from the get-go the new system will be imperative.

The proposed integrated territorial approach will be more demanding for engaged stakeholders (MAS, beneficiaries) than the 2014–20 period and they will need enhanced capacity to handle it. The

planned implementation model with an important role of the RDCs, collaborative management by MAS, integration of funding sources, and presence of partnerships is new to all stakeholders. The MAS will need to reinforce their capacity to create and manage a streamlined, transparent and well-coordinated implementation system to support swift uptake of funds. Though integrated projects are not fully novel to Bulgaria, none of the MAS has the experience with implementing them at a large scale and in collaboration with each other. The beneficiaries will also need to boost their capacity to take advantage of the integrated approach and its flexibility. Their ability to acquire new skills, such as intersectoral planning, creating and managing partnerships, following procedures from different Programs, and their speed will be a key success factor of the new approach.

New approach is shaping up

The GOB intends to introduce a new integrated approach to regional development to counteract negative development trends in its regions. In essence, the GOB plans to channel most of the EU funds devoted to regional development (PDR 2021–27 and ten percent of the allocation of most of the sectoral Programs 2021–27) via integrated investments, which will amount to around EUR 2.2 billion¹⁷ (more details in the section 4.4 and 4.5). The approach is oriented toward the whole country. 50 urban municipalities will be eligible beneficiaries under both priority axes of PDR, and in two groups: ten largest urban centers and the remaining 40 urban municipalities. Both groups will have different financing options for their development, see Figure 1.4 for the overall arrangement. Rural municipalities will have an opportunity to be involved in ITI concepts since they will be eligible for financing their 'soft' measures from the six contributing sectoral programs and also 'hard' infrastructural measures from SPARD, that will mirror those envisaged under PDR.

17. This amount does not include the expected contributions from the budgets of SPARD and the Maritime, Fisheries and Aquaculture Program 2021–27, since they are not currently defined.

FIGURE 1.4 Building blocks of the integrated territorial approach

Integrated Approach					
Territory	10 biggest urban centers (in four clusters)		40 remaining urban municipalities	215 rural municipalities*	
Financing	PDR Priority Axis 1 (EUR 0.4 billion)		PDR Priority Axis 2 (EUR 1.1 billion)	SPARD**	
	10% from five contributing Programs (EUR 0.6 billion) + Maritime				
Projects	Type 1 (simple project)	Type 2 (territorial integration)	Type 3 (participation in PA2 ITI concepts)	ITI Concepts (integrated projects)	PA2 ITI Concepts (thematic scope of 6 Programs + SPARD)
Selection	PSU/PSC + PDR MA	PSU/PSC + PDR MA	RDC + MAs	RDCs + MAs	
Applicants	Partnership not required (Type 1a) and required (Type 1b)	At least two municipalities in urban cluster	Together with PA2 ITI Partnership	Obligatory ITI Partnerships	Together with PA2 ITI Partnership

Legend: PSU – municipal Project Selection Unit, PSC – municipal Project Selection Committee, MA – Managing Authority, RDC – Regional Development Council, PDR – Program for Development of Regions 2021 – 27, SPARD – Strategic Plan for Agriculture and Rural Development; Maritime Program – Maritime, Fisheries and Aquaculture Program 2021 – 27.

* Rural municipalities will also be able to obtain financing from PDR under priority axes 1 and 2 in the following areas: industrial zones, national road infrastructure, urban mobility, and healthcare infrastructure if these are part of ITI concepts. It still needs to be clarified, whether all rural municipalities will have this opportunity.

** The amount of SPARD and Maritime Program's contributions is currently undefined. They will be determined on the basis of a methodology that considers the specifics of the European Maritime, Fisheries and Aquaculture Fund, the European Agricultural Guarantee Fund and the European Rural Development Fund.

Source: Authors

The ten largest municipalities will be financed by the PDR PA1. Three types of projects are envisioned under this 'urban dimension' of the PDR: simple investments in a single municipality (Type 1), territorially integrated within borders of an urban cluster (Type 2), and integrated with PA2 ITI concepts (allowing PA1–PA2 as well as urban-rural collaboration in the thematic areas covered by the participating Programs)—Type 3. Unlike the case with ITI concepts under PA2 of PDR, integrated investments for ten largest urban municipalities (Type 1 and 2) will only be financed from PDR, without the possibility to finance individual projects from other Programs. The partnership principle is not required in Type 1a projects. The PA1 projects will need to be in line with municipal strategic documents (Plan for Integrated Development of Municipality, PIDM). More details about the PA1 lifecycle and types of projects are presented in Chapter 4. Type 1 and Type 2 projects will have allocation of EUR 280 million and Type 3 around EUR

120 million. Project selection will have two phases, the municipal administration (territorial bodies) will be engaged at the first stage and the MA PDR will take the final decisions in the second stage.

The 40 remaining urban municipalities will be able to tap into financing from PA2 and the six contributing Programs to finance their 'ITI concepts' and rural municipalities, participating in ITI concepts, will additionally have access to SPARD. Within the 'territorial dimension' of the PDR (i.e. the Priority Axis 2) a single integrated territorial intervention ('ITI concept') will be composed of a bundle of projects. Projects within the ITI concept can come from different sectors, for instance water, education, infrastructure, energy efficiency, that have a joint goal aiming at addressing development challenges or strengthening development potentials of a specific territory. ITI concepts will be prepared by obligatory partnerships of stakeholders (future beneficiaries

of projects) that can (but are not obliged to) have an intermunicipal character. The project selection will have two stages. First the assessment of the whole ITI concept by the RDCs as the relevant territorial bodies (this stage will require the provision of information on the overall concept). Then at the second stage comes the assessment of fully developed project proposals included in the ITI concept by the MAS of respective funding Programs. ITI concepts will need to be compliant with regional strategies (Integrated Territorial Strategy for Development, ITSD). Section 4.1 presents a more detailed description of the lifecycle of an ITI concept.

A new governance mechanism at the regional level with an enhanced role of the revamped RDCs is one of the pillars of this approach. The RDCs will be a key element of the reform and will obtain new functions and organizational structure as per the recently revised Regional Development Act and its rules for implementation. They will help elaborate ITSDs, that will guide future EU investments in the respective regions. The RDCs will also support beneficiaries in the process of forming mandatory partnerships, and preparing ITI concepts under the PDR PA2. Finally, they will carry out a first-stage assessment of the ITI concept applications and successful applications will be then passed on to respective MAS for final check and approval. In terms of structure, they will have two layers, a managerial (political) one with the participation of mayors and district governors, and a technical one with experts nominated from other entities. The RDCs will not be institutionalized, they will not have a dedicated budget or permanent staff and office.

The promotion of integrated investments through an obligatory contribution by sectoral Programs to the new approach is the second pillar. The COM's decree No.335 decided that most of the Programs will devote at least ten percent of their EU funds allocation to supporting integrated investments under the territorial approach (PA2). That implies the contributing MAS will need to coordinate their work at the stage of preparation of ITI concepts, evaluation of specific projects included in the ITI package, and their implementation. The draft COM's ITI Decree, that

will regulate the new territorial approach and collaboration of the MAS is currently discussed within the GOB.

Its regulatory and institutional framework is also being designed

The process of designing the integrated approach is dynamic and this report captures the status as of October 2020. Many planning and organizational efforts are simultaneously happening, some strategic aspects may still evolve, and many technical ones definitely will. For that reason, the assessment provided here is far from being a final verdict. Despite this dynamic situation, it seems possible to identify elements vital for the current stage of planning and successful implementation of the new approach and formulate recommendations to capitalize on them.

Some key framework documents that will shape the new approach are still being discussed by the GOB. Thus, information about the final shape of the reform is not readily available, consequently, technical details that depend on these higher-level documents cannot be developed at this stage. That includes for instance a demarcation line between Programs, financial arrangements, detailed description of the project selection process. For that reason, the sections where detailed data is available provide more in-depth analyses, while the sections with incomplete information base on WB team's assumptions and remain at a higher level of generality. Where necessary, information about specific missing documents and clarifications is provided and implications of these gaps are presented. For instance, so far the description of key strategic modalities of the integrated approach as provided in the draft Partnership Agreement is relatively limited, and some of the key elements still need to be presented (e.g. coordination mechanism, demarcation line, pre-mapping of sectoral needs guiding the scope of integrated investments). Moreover, a draft of the Council of Ministers' ITI decree that is to provide details with regard to the inter-ministerial arrangements for the coordination of implementation of integrated investments is still under development, drafts of sectoral Programs have not

been finalized, and specific comments of the EC to the draft PDR 2021–27 are pending the formal negotiations process.

Different institutional arrangements for implementing the integrated approach are also being considered. Based on the analyses of available information and international experience, this report proposes solutions

that could further shape the composition, functions and specific tasks of engaged entities as well as their institutional relations and future interaction and processes. The report also provides feedback on the proposed arrangements, identifies vital elements, and outlines solutions that could be considered by the GOB as it further refines and develops the new approach.

CHAPTER 2

**DEVELOPMENT NEEDS
OF BULGARIAN REGIONS
(NUTS 2 LEVEL)**

Bulgaria's NUTS 2 regions share similar potential and challenges, though the intensity of each differs depending on each region's individual characteristics. These are identified in the diagnostic sections of key Bulgarian strategic and planning documents, that is the National Concept for Spatial Development (NCSD) and the six Integrated Territorial Strategies for the Development of NUTS 2 Regions (ITSDs). Table 2.1 summarized these developmental potentials and challenges.

TABLE 2.1 Most common development potential and challenges of Bulgarian NUTS 2 regions

Main development potential of the Bulgarian regions	Main development challenges of the Bulgarian regions
<ul style="list-style-type: none"> • Strategic location and transport connections securing the potential for industrial and logistics activities; • Establishment of dense industrial zones, including clusters of industrial zones and reserved territories for new industrial and logistics activities; • Concentration of universities and scientific organizations with potential to develop and implement R&D related to agriculture and industries and especially food processing industries; • Well-established regional networks of educational facilities (kindergartens, schools) and educational centers (universities and vocational schools); • Preserved biodiversity and natural resources supporting the development of effective agriculture, including organic farming; • Rich cultural heritage which in combination with the natural resources creates opportunities for the development of diverse tourist products; • Well-developed polycentric network of urban centers. 	<ul style="list-style-type: none"> • Unfavorable demographic situation and prospects: population decline, deteriorating age structure, negative natural growth and migration leading to steady depopulation of peripheral territories and majority of cities, including bigger towns and NUTS 3 level administrative centers; • Insufficient transport connectivity: undeveloped transport and communication infrastructure restricting access to public services and limiting appeal for the location of new investments; • Infrastructure gap: wastewater treatment and waste management, water and sanitation networks, educational facilities, cultural infrastructure renovation and preservation; • Unfavorable labor market trends: reduction of the labor force with deteriorating ratio of groups entering and leaving the labor market; • Low economic activity rate: a high share of people who are not working and also not registered as unemployed searching for a job; • Uneven and insufficient investments in research and development: they are mainly concentrated in the city of Sofia and their scale is insufficient; • Insufficient access to health care: mainly in peripheral territories and even bigger towns and NUTS 3 level centers.

Source: Authors on the basis of the NCSD and ITSds

These identified development disadvantages generate three types of challenges for regional development. First, overcoming or at least limiting the consequences of negative demographic trends and fostering the development of human resources. Second, reducing the infrastructure gap, especially in the less developed areas, by providing investments for completion and renovation of technical and social infrastructure. Third, stimulating

economic activity also outside the capital and main regional cities.

The concentration of demographic and financial resources in the capital city of Sofia, and a handful of the other biggest cities (Plovdiv, Varna and Burgas), are yet to show positive spillovers into smaller urban centers for them to reap benefits of a balanced polycentric urban development model. This concentration of population and GDP in a few key urban centers seems one of significant bottleneck to more balanced growth in Bulgaria and the resulting imbalances have both interregional and intraregional dimensions. The monocentric development along the center—periphery axis is visible at all planning levels in Bulgaria: regional; district and municipal. Since the primary and secondary cities often are drivers of the regional growth, they need to be dynamic and be able to attract investments. However, it is also important that surrounding areas can benefit from the growth of these main centers. Spurring growth in more remote and poorer areas that disproportionately experience depopulation and the effects of the infrastructure gap constitutes a major challenge.

Thematic scope of interventions that are to match identified regional needs

ITSds will become key strategic documents at the NUTS 2 level and will create a comprehensive strategic framework for each regions' development. Additionally, all Bulgarian municipalities should develop their Plans for Integrated Development of Municipalities (PIDMs) in accordance with the ITSds in such way that the local priorities reflect the regional ones. The planning nature of the ITSds is to fully cover the different regional needs, which makes range of possible investment broad. On the other hand, limited financial resources available for investments call for prioritization of interventions on the ones with the potentially biggest impact and

value added. The goal of ITSds is to guide the selection of interventions that could create synergies and thus help enhance regional development. The ITSds apply the integrated approach logic especially in relation to the formulation of their priorities and specific objectives. Otherwise, the six ITSds set forth general areas for interventions and offer limited guidance on specific investments for specific territories. They could be divided in four categories: economic, social, infrastructure, and environmental and cultural that are presented in Box 2.1.

The ITSds cover a variety of measures that are suitable for integration, yet, in general, they do not provide specific examples of how and where these measures could be combined. The development of industrial zones and tourist products are exceptions that are included in the lists of priority regional projects, which are part of the ITSds. In principle, the projects are divided by sectors and the strategies could more strongly link the thematic interventions to specific territories or zones at the NUTS 2 level. The ITSds include 'hard' and 'soft' measures from a number of different sectors that could be combined. The ITSds directly identify a few types of investments that are suitable for application of integrated territorial approach, but details are not provided. These types include construction or renewal of industrial zones, investments in education (including for educational integration of vulnerable groups and for dual education), improving labor market and work force potential, improvement of ecological infrastructures and protection of biodiversity.

Under the new integrated approach, it seems that prospective beneficiaries will have a role of 'discovering' specific combinations of measures suitable for integration. The strategic documents could benefit from streamlining their guidance about which territories and zones would be most suitable for targeting via the integrated approach and/or sectoral interventions. Such a coordinated message across the NCSP, ITSds and PDR would help guide prospective beneficiaries in preparing applications.

BOX 2.1 Regions' investment needs

The Integrated Territorial Strategies for Development (ITSds) identify the following areas as regional needs at the NUTS 2 level:

Infrastructural aspects:

- Construction and reconstruction of technical infrastructures with a focus on key transportation links and water supply and sewerage infrastructures;
- Renovation and energy efficiency of various buildings of the social infrastructure, including healthcare and social services;
- Construction and reconstruction of ecological infrastructure for wastewater treatment and waste management.

Economic aspects:

- Establishment and development of industrial and logistics zones, including construction or reconstruction of technical infrastructures and public spaces;
- Improving energy and resource efficiency and also for implementation of new technologies, products, services, models and innovations in SMEs;
- Development of integrated tourist products securing year-round and diverse tourist activities;
- Transfer of technologies and establishment of partnerships between enterprises and educational organizations;

Social aspects:

- Providing and training staff for securing quality and access for public services including healthcare, social services and education;
- Integration in the labor market of economic inactive people, including educational activities for new skills for elders; opening new jobs with the involvement of the business;
- Development of vocational schools and implementing dual education on different levels which are in line with the economic structure and business needs;

Environmental and cultural aspects:

- Preservation of protected areas for natural resources and protection of forest resources with utilization of their recreational potentials;
- Research, conservation and socialization of cultural heritage and its inclusion as part of integrated cultural and tourist products;

Source: Authors on the basis of ITSds

In principle, the ITSds and Programmes for 2021–27 will provide the framework that enables thematic integration of investments, especially for urban municipalities.

The framework seems flexible and will allow a broad range of investments. On the one hand, this is commendable, as it does not limit beneficiaries' creativity in addressing needs of their specific territories. On the other hand, however, the lack of strategic guidance could lead to dispersion of investments and insufficient concentration of resources in areas that would drive regional impact. The planned approach will also provide financing encouraging thematic integration of interventions and mixing hard and soft measures (Chapter 4 provides more details).

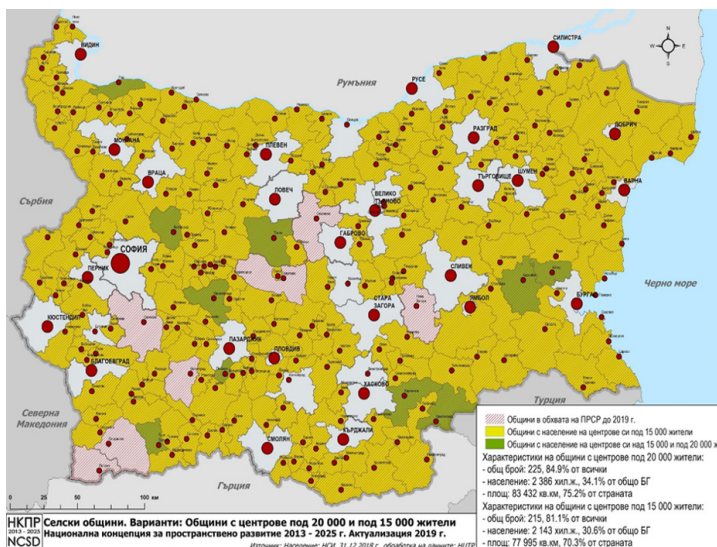
Territorial scope for implementing these interventions

During 2021–27 urban and rural municipalities will, to a certain extent, share sources and modalities of investment financing. The definition of an ‘urban municipality’ is adjusted for the upcoming period. The rural-urban dichotomy is based on the population number of the administrative center. The cutoff point for rural municipalities was decreased from the previous 30,000 to 15,000 people and as a result 50 municipalities in Bulgaria are now recognized as urban, and 215 municipalities with administrative centers with the population under 15,000 inhabitants are considered rural (Figure 2.1). In principle, the 50 urban municipalities will obtain support from PDR 2021–27 and the rural ones from SPARD (see a description in Section 1.5). PDR PA1 will finance ten largest cities in Bulgaria (grouped in four clusters)—see Figure 2.2, PA2 will support investments in the remaining 40 urban municipalities. Moreover, the urban municipalities will be able to engage in integrated interventions that are financed not only from PDR 2021–27, but also from other programmes. With respect to the main goal of PDR, i.e. overcoming inter- and intra-regional imbalances,

the rural municipalities will have an opportunity to participate in ITI concepts. They will be able to participate as partners of urban municipalities with their own projects for small-scale infrastructure and basic public services supported by SPARD along with the other six contributing programs. The inclusion of rural territories is a positive development as it could strengthen the socio-economic impact of ITI concepts that will go beyond urban centers and is likely to generate trickle-down development effects for targeted functional areas.

The urban-rural division is a key factor that will shape 2021–27 investments opportunities and modalities in municipalities. This classification, however, is applied neither in the National Concept for Spatial Development (NCSD), nor in ITSDs. The former, proposed the 20,000 citizens cut-off point as one of the possible scenarios, but it is not consistently utilized in the NCSD. Decreasing the population threshold seems sensible however and should simplify the implementation of EU funds for some urban centers. For instance, under the 2014–20 perspective, 28 municipalities (identified by the NCSD as important development centers) had their financial support separated between the OPRG 2014–2020 and RDP 2014–2020. This made the preparation and implementation of projects more complex. For example, the renewal of a school in the administrative center of these municipalities had to be divided between the two programmes—sports fields and equipment under the RDP and energy efficiency under the OPRG. Measures will need to be put in place to avoid this type of situation repeating during the new programming period. There were also instances of municipalities that could not access EU funds because they fell through a gap in the description of eligible urban and rural municipalities (‘white spots’). This also should not be repeated during the next perspective as the proposed territorial scope of the PDR will cover all urban municipalities, while the SPARD will cover all the rural municipalities.

FIGURE 2.1 Division into urban and rural municipalities during the 2021–27 period



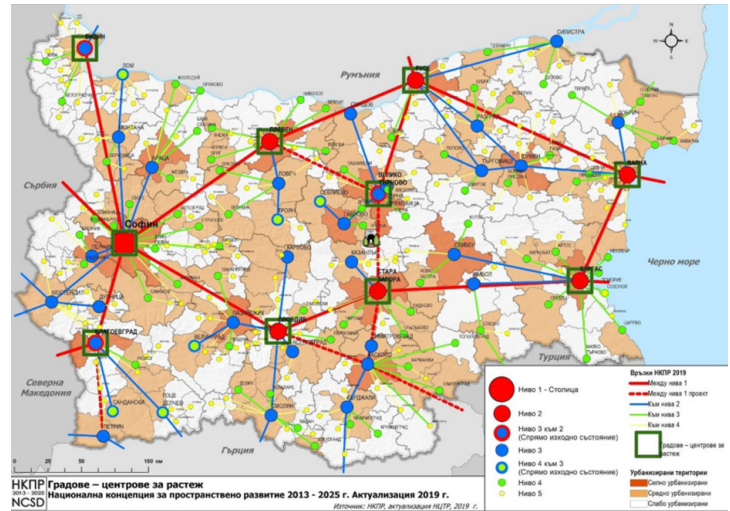
Legend: yellow color marks rural municipalities, the remaining white, green and shaded with red lines represent 50 urban municipalities for the 2021–2027 period.

Source: NCSD

The participation of SPARD in the integrated approach helps address the risk of ‘territorial discontinuity’ of ITI concepts, that would arise if SPARD would not be able to contribute to ITI concepts. SPARD’s participation could also encourage formation of ITI concepts that would

have a greater territorial and thematic scope (investments in urban and rural municipalities) and promote functional linkages between them. The ‘territorial continuity’ of ITI concepts is important for supporting the development axes indicated in ITSDs as it could prevent the risk for spatial gaps (‘white spots’ in terms of lack of eligibility of some groups of municipalities for funding)¹⁸. For instance, if a rural municipality is located between urban municipalities that participate in a joint ITI concept and this ITI Partnership plans to enhance transport capacity by building a road connecting these urban municipalities, the construction of the road on the territory of the rural municipality will also be part of the ITI concept. The investments for industrial zones, national road infrastructure, sustainable urban mobility and healthcare infrastructure located in rural areas will not be supported by SPARD, because PDR will allocate resources for such investments¹⁹.

FIGURE 2.2 Ten urban centers of growth supported by PDR PA1



Legend: The ten cities marked with green squares are identified as growth centers and will be beneficiaries under the PA1 of the PDR 2021 – 2027. These are Vidin, Pleven, Ruse, Veliko Tarnovo, Varna, Burgas, Stara Zagora, Plovdiv, Sofia and Blagoevgrad.

Source: NCSД

Key messages:

NCSД and ITSDs identify a broad range of the investment needs of Bulgarian NUTS 2 regions that paves the way for planning of potential integrated interventions. It seems that some of them could more effectively be addressed via the integrated territorial approach, while some by sectoral interventions. NCSД offers directions on topics where integration could be most desirable and deliver highest impact with regard to this division, and ITSDs could further strengthen this section.

Similarly, to the current approach, during the next financial perspective the territorial dimension of investments will be shaped by the rural-urban divide. It would be beneficial to further elaborate how rural municipalities will be able to fully participate in the integrated approach and how SPARD will contribute to the integrated approach. The problem of ‘white spots’ from the previous perspective seems solved.

18. Without inclusion of SPARD into the integrated approach, there would be a risk that rural municipalities could not apply for financing as a part of an ITI concept. That would mean they need to separately apply for funds from other sources (e.g. SPARD). Such separate application would not guarantee funding even if an ITI concept would obtain funding. In turn, this could lead to the lack of ‘territorial continuity’ of ITI concepts.

19. At the time of preparing this report, there was no detailed description about the investments of PDR 2021–2027 in the rural areas in terms of beneficiaries and conditions for funding.

CHAPTER 3

**STRATEGIC PLANNING
FRAMEWORK
FOR TERRITORIAL
INSTRUMENTS
IN BULGARIA**

The 2020 amendments to the Regional Development Act (RDA) introduced a new system of strategic planning documents, which integrates spatial and socio-economic planning to promote a more holistic approach to development processes in Bulgaria. It consists of three tiers: national (National Concept for Spatial Development), regional (Integrated Territorial Strategies for the Development of NUTS 2 regions) and local (Plans for Integrated Development of Municipalities). These documents constitute the strategic framework for the implementation of the new integrated approach and territorial instruments.

National Concept for Spatial Development of Bulgaria (NCS D)²⁰

The NCS D defines the medium-term spatial framework for all development investments in Bulgaria. The Concept describes the basic model for polycentric development which integrates different levels of urban centers and axes for development into a single spatial system.

The Concept supports the idea of the integrated approach and promotes cooperation between municipalities to effectively address territorial challenges. A major update of the NCS D that took place in 2020 has marked the departure from broadly defined territories and the application of much more territorially limited functional zones. The NCS D identifies the following sectors and topics where integrated approach to investments is advocated:

1. provision of quality and accessible health, educational, cultural, social and administrative services in peripheral and weakly-urbanized areas;
2. joint implementation of key infrastructural projects, including improvement of transport access, gasification and construction of industrial zones;

3. development of regional tourist products based on natural resources and concentration of cultural heritage, covering groups of municipalities.

The NCS D also formulates the need for the concentration of resources and investments in ten urban centers. Such an approach is to support the functionality of the national urban axes defined as polycentric linear zones formed by the integration of development poles (large and medium-sized cities) with the country's transport and communication network. According to the NCS D, these ten main urban growth centers should focus investments for urban projects that could generate substantial trickle-down effects and boost the development of the entire country.

The investment needs of the remaining 40 urban municipalities are included into the needs of broader territories. Such integration into broader areas promotes the focus of the development efforts on intermunicipal needs and potentials, with a view to generating a wider regional impact.

The Concept also identifies 'functional zones' as territories with a higher priority for investments. The selection criteria are derived from geographical characteristics, specific location (e.g. mountainous) or on the observed vulnerability of territories to specific development risks (demographic, economic, environmental). They constitute 'targeted territories for support' and are meant for the sectoral policies and operational programs. Since these targeted territories are large in size, the NCS D defines 'functional zones for targeted support' to narrow them down. The functional zones are seen as a compact spatial system of integrated territories and the NCS D uses them to delimit territorial investments. Functional zones share common or similar conditions and goals and are divided into two types: i) very stagnant (social zones) for mainly social measures and ii) zones for stimulated development with the use of primarily economic measures (economic zones).

20. NCS D covers the period of up to 2025; the Concept underwent a major review and a resulting update in 2020.

In general, the functional zones could be used to direct beneficiaries in developing integrated investments, but this concept is not elaborated in neither the draft PDR, nor the ITSds. This is especially true for the ‘economic zones’ because they are promoting continuous urban axes that bring together urban municipalities under PA1 and PA2 of PDR 2021–27. These urban axes could constitute the basis for different sets of integrated investments within a single NUTS 2 region and across the regions. The social zones that include only rural municipalities could also be incorporated into integrated investments, though more details are needed as to how SPARD will contribute to the integrated approach²¹. The general premise of the integrated approach is to stimulate the development of weaker territories, which often happens thanks to link them with more developed ones. The inability to combine rural and urban municipalities under the NCSd’s definition of the ‘social zone’ imposes restriction that would not allow reaping the full benefit of the integrated approach by rural municipalities. Current drafts of the PDR and ITSds do not build on the concepts of the functional zones. Though the ITSds reflect them in their texts, the zones are not utilized for directing any integrated investments.

Integrated Territorial Strategies for the Development of NUTS 2 regions

The six ITSds²² are envisaged as the main regional (NUTS 2) documents that will define regional priorities and areas for investments. As of October 2020, draft the ITSds have not been finalized due to the need to conduct their environmental impact assessment before they are approved by the RDCs and endorsed by the COM (expected date, Dec 2020). They are a new element in the three-level system of strategic documents in

Bulgaria. The draft PDR 2021–2027 acknowledges the prominent role of ITSds because they are recognized there as ‘territorial strategies’ described under Art. 23 of draft CPR for 2021–2027, which means they will guide programming of integrated interventions (ITIs) financed from EU funds in that period. The draft PDR states that all types of activities to be supported under Priority Axis 2 with the focus on *territorial development of the NUTS 2 regions* need to be identified in ITSds. The identification is to be based on the mapping of territorial (‘bottom-up’) and sectoral (‘top-down’) development needs.

The strategies introduce ITI Concepts as a new instrument for integrated regional development. The presentation of the integrated territorial approach could be further enhanced by a more specific and detailed description in the ITSd. The draft ITSds reflect the assumptions formulated in the NCSd with its models for spatial development including the core urban centers, and territories with specific characteristics, including functional zones.

The draft strategies define regions’ directions and areas for development. They provide comprehensive analyses of the regional socio-economic situation that focus on data available for levels NUTS 2 and NUTS 3, while lacking more detailed information and analysis with regard to specific groups of municipalities.²³ All six strategies have the same structure and a similar approach to identifying trends, as well as formulating conclusions and proposals. Some of the specific objectives of the draft ITSds directly indicate the scope of support to be provided under the integrated regional approach and a list of priority projects. The prevailing types of investments for all six regions include:

- Investments in education, including for educational integration of vulnerable groups and for dual education;
- Investments for cultural infrastructure;

21. It is expected that the SPARD 2021–27 will mirror the solutions used in PDR 2021–27, though details are still being worked out.

22. In 2019 National Center for Territorial Development (NCTD) was commissioned by MRDPW to prepare a draft of six ITSds; the drafts were then consulted with RDCs and the general public (spring of 2020).

23. Insufficient availability of data at the local level continues to be one of the challenges for conducting comprehensive territorial analyses in Bulgaria.

- Construction and/or renewal of industrial zones;
- Measures aimed at improving labor market and enhancing workforce potential;
- Improvement of environmental infrastructure and protection of biodiversity.

The draft ITSDs also formulate indicative lists of key investment ideas and estimated budgets²⁴, though these investments are not presented in an integrated way and do not seem to have a strong integrated nature. Most of them are structured by sectors and focus on single-sectoral problems and not by territories or by cross-thematic problems that would be addressed by a package of different subprojects, as the integrated territorial approach proposes. Moreover, they require the engagement of central-level stakeholders and cannot be solely implemented by local-level stakeholders (following a bottom-up approach). These indicative investments are not defined in the context of specific territories because the projects lists are the same for each of the six regions. Moreover, the ITSDs present only infrastructure projects without ‘soft’ measures. Nonetheless, some of the investments proposed in the ITSDs, e.g. industrial zones, tourist products, or competence centers, could be included in ITI concepts of a broader nature.

Plans for Integrated Development of Municipalities (PIDMs)

The Plans for Integrated Development of Municipalities (PIDMs) represent the third, municipal, level of the development planning system in Bulgaria. The framework for their preparation and implementation is shaped by the *Methodological Guidelines for the Plans for Integrated Development of Municipalities* issued by the MRDPW. The 2021–2027 PIDMs will have an integrated character as they are the result of the merger of two former types of documents—the *Municipal Development Plans* and the *Integrated Plans for Urban Regeneration and Development*.

The PIDMs are key municipal development documents that guide future urban investments. The structure of the PIDMs includes: i) an analysis of economic, social and ecological status, needs and potentials for the development of a municipality, ii) objectives and priorities for the development of the municipality, iii) a communication strategy, partners and stakeholders and forms of involvement in preparation and implementation of PIDM, iv) zones for integrated approach for tackling identified needs and supporting potentials for development (they have different territorial coverage to ‘functional zones’ specified in the NCSĐ), v) program for the implementation of the PIDM and description of the integrated approach (these programs are basically the set of identified projects with their territorial scope, financial and organizational parameters), iv) adaptation measures on climate change and disaster risk reduction, and vi) actions and indicators for the monitoring and evaluation of a PIDM.

The zones for an integrated approach are used as the territorial focus of interventions and investments envisaged in PIDMs and thus could be the base for integrated territorial development. The *Methodological Guidelines* distinguish five levels of urban centers in Bulgaria and different requirements regarding the zones applying to these levels. The first three levels include 35 cities that compose the main network of urban centers. They will have to define urban zones for the integrated approach within these city borders. Investments in these cities will be financed by the PDR 2021–27. The other 15 urban centers, which also will be encompassed by the integrated approach of the PDR, are not obliged to have such zones. Clarifying this discrepancy could streamline the implementation of the integrated approach in urban centers that will be supported by PDR.

The concept of zones for an integrated approach is linked with the concept of joint projects and partnerships between neighboring municipalities, however their defining criteria are not available. Two types

24. These ideas were collected from central and regional stakeholders as part of the public consultation process which took place in March and April 2020.

of zones exist: i) urban zones and ii) other zones with specific characteristics. The other zones could be territories with potential for cooperation with neighboring municipalities. However, criteria for defining the zones are currently not yet elaborated. The *Methodological Guidelines* do not require municipalities to reflect in their PIDMs territorial areas described in the higher-level documents. In turn, the PIDMs neither use territorial groupings of municipalities proposed by the NSCD, nor apply territorial divisions defined in the ITSDs.

The Methodological Guidelines allow intermunicipal cooperation as an option for the integrated territorial development of groups of municipalities. To facilitate such solutions, the Guidelines stipulate that an analysis section of a PIDM should not only cover the territory of an individual municipality, but ‘should also take into account all adjacent territories within neighboring municipalities which can affect the development of the

border municipal territories’. The Guidelines, however, do not suggest or impose the need to link such intermunicipal interventions to the higher-level documents, such as a relevant ITSD of the NUTS 2 level.

The above suggests that intermunicipal collaboration could be more strongly encouraged and operationalized in the strategic documents. The strategic framework and operational guidelines could provide clearer guidance for municipalities. Additionally, more pronounced complementarity of strategic documents at different levels with regard to integrated planning and investments could further facilitate intermunicipal links. Provision of a clear strategic framework and operational models for collaboration are important in a situation where municipalities have limited track record in implementing joint ventures. Including such elements in the *Methodological Guidelines* for PIDMs could be a first step to move in this direction.

Key messages:

The revised strategic framework reflects the planned introduction of the integrated territorial approach on all planning levels (national, regional, municipal). For instance, the strategic documents propose various territorial divisions of the country and some discuss the need for thematic integration, which is in line with the new approach. The framework has scope for further finetuning, for instance a more consistent definition of different territorial types (e.g. functional zones, zones for integrated approach, ten core urban municipalities, 40 other urban municipalities) would enhance documents’ compatibility. Subsequently, these territories could be used for identifying the needs and growth potential and proposing intervention categories or specific integrated investments.

The NSCD already advocates specific thematic areas suitable for integration yet does not attach them to specific territories. ITSDs enlist key regional interventions to address developmental gaps. They are, however, relatively general and to a large degree single sectoral. Their integrated nature and specific territorial orientation could be further reinforced as many of the indicated interventions have potential to be combined into joint projects. Stronger involvement of local stakeholders in preparing these strategic documents could help better embed these documents in the local context. This seems to be one of the reasons why the future RDCs are to approve ITSDs. Another solution could be to build on rigorous ex-post evaluations of previous experiences with integrated investments and other accumulated evidence to more precisely identify areas where the need for such projects and their potential impact are highest.

PIDMs objectives will need to be aligned with goals presented by ITSDs. Municipalities could choose to implement them in intermunicipal partnerships and in specifying zones for integrated approaches. MRDPW’s *Methodological Guidelines* for PIDMs would need to further specify how to operationalize these zones and partnerships and how to align their goals with planning documents at the higher level.



CHAPTER 4

**INTEGRATED
TERRITORIAL APPROACH
IN BULGARIA**

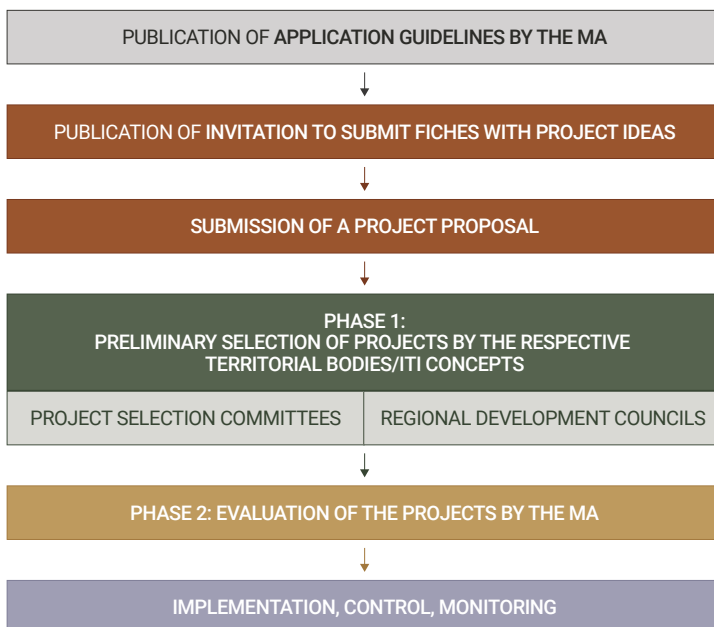
This chapter reviews the solutions proposed under the integrated territorial approach, identifies risks, and proposes measures that could help further reinforce the design and future implementation of the approach in Bulgaria during the 2021–27 period. It first describes the lifecycle of PA1 and PA2 projects and the roles and capacity of stakeholders engaged in the new approach. Then it analyzes the implementation framework of the integrated approach. Individual sections focus on different aspects of the approach: role division between stakeholders, legal framework, thematic and territorial coverage, financial framework, guidelines for stakeholders, evaluation and selection process, coordination mechanisms, and finally monitoring and evaluation. Since these elements are closely intertwined it is not always possible to make clear-cut distinctions between them, hence the sections are somewhat interlinked with each other.

The main premise of the integrated territorial approach is to counteract growing disparities between and within Bulgarian

regions. The territorially focused integrated interventions are expected to spur growth in not only a limited number of growth centers, but also less advantaged territories. By involving a broad group of local stakeholders, they are expected to help generate a high level of ownership, spur durable partnerships, and ensure the sustainability of investments. All of these should translate into the stronger socio-economic development of individual territories and broader regions. It is too early to cast a final verdict whether the integrated approach will rise to these expectations, as many strategic and technical aspects, which will define it, are still under discussion. Nonetheless, this chapter attempts to shed light on key aspects that require attention during the further planning work and proposes strategic and specific solutions that could be implemented under the approach.

Lifecycle of PA1 and PA2 projects²⁵

FIGURE 4.1 The lifecycle of the PA1 projects



Source: Authors

Under PA1, the three different types of projects will, in principle, follow the same lifecycle, though they will also have individual characteristics. The general model has the following stages: publication of the project application guidelines; submitting project fiches; fiche evaluation at the level of municipalities; submitting fully fledged project proposals; evaluation of proposals at the level of MA, project implementation; and the control and monitoring of the projects (see Figure 4.1 **The lifecycle of the PA1 projects.**). A Type 1 project fiche is evaluated and selected at the municipal level by the PSUS and PSCs. This phase is followed by preparation and submission of a full-scale project proposal, which is evaluated by the MA of PDR. A Type 2 project fiche will need to be prepared by a formal partnership (a partnership agreement is required) between municipal administrations and/or stakeholders from at least two municipalities within a single urban cluster (territorial integration). A project fiche prepared by

25. In October 2020, the GOB decided that SPARD and the Maritime Program will contribute to the integrated approach and that rural municipalities will be able to use financing from PDR's PA1 and PA2 for specific types of investments (industrial zones, national road infrastructure, sustainable urban mobility and healthcare infrastructure), if they will constitute a part of an ITI concept. Details of these arrangements still need to be provided, hence this chapter does not reflect this modality.

a partnership is then evaluated by the PSUs and PSCs of the respective municipalities. In the second phase the partnership submits the fully prepared project proposal to the MA PDR at the national level for its evaluation. A Type 3 project idea in general follows the PA2 path through the RDCs. However, to join an ITI partnership, a letter of support from the PSU is required, then the ITI concept is prepared and submitted to the RDC for the first stage evaluation and then the complete project proposals are submitted to respective MAS for the second stage evaluation.²⁶

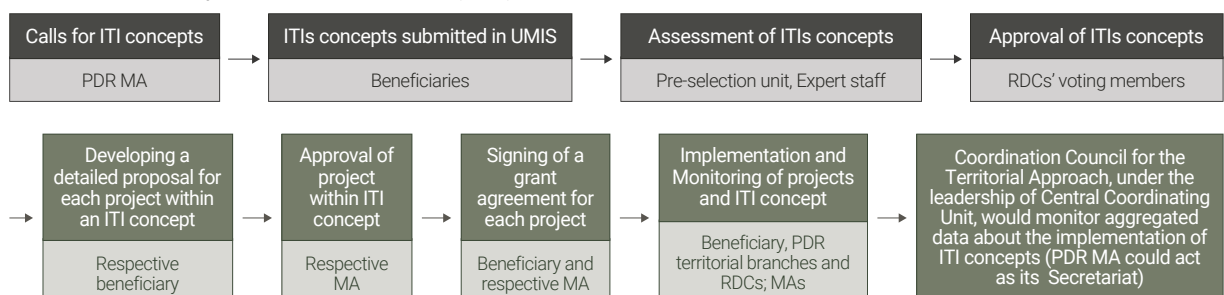
The preparation phase of ITI concept (PA2) consist of two parts and it is matched by a two-tier evaluation of project proposals. The MA PDR, as the leading MA for the integrated approach, will initiate a call for ITI concepts. During the first preparatory phase, stakeholders develop an idea of an ITI Concept, which if successful, is concluded with signing of the ITI Concept partnership (Figure 4.2). The signing of a formal partnership agreement is a precondition for the submission of an ITI concept for evaluation. A partnership can be composed of various types of stakeholders, such as: i) state bodies, district administrations and municipal authorities, ii) representatives of the civil society, iii) business, and iv) scientific community. Municipal authorities will most likely be the key actors in the partnerships. The ITI partnership further develops an idea of the ITI concept and prepares a more specific, though still quite general, description of the ITI Concept and submits it via the UMIS for the first stage evaluation. The concept is assessed by the RDC's expert staff and voting members against previously approved selection criteria.

The aim of the second phase of the ITI concept preparation is to award grants to projects included in the positively evaluated ITI concepts. The phase starts with MA MDR (with MAS of other Programs) sending an invitation to candidates (partnerships) with selected ITI concepts to present their fully-fledged project applications to the respective MAS. At this stage, the partnership needs to have fully prepared individual projects that create the ITI concept. The application and grant award procedure (to be detailed in a dedicated COM Decree on the implementation of the integrated approach) will follow the rules for direct grant awards. The phase ends with the signing of grant contracts between respective MAS and project beneficiaries. The RDCs will not participate in the second phase of ITI concept selection. The entities involved in this phase are the Steering Committee, MAS and ITI partners responsible for the implementation of the individual projects included in the selected ITI concept.

CLLD is a progenitor of the new approach

The community-led local development (CLLD) is a type of integrated territorial approach that was most broadly applied in Bulgaria during the 2014–20 period and will be also implemented during the next period. The CLLD model to some extent resembles the envisaged ITI approach under the new PDR 2021–27, though the scale of both approaches varies. The CLLD's goal was to tackle the joint challenges of rural municipalities through a package of projects financed

FIGURE 4.2 Lifecycle of the ITI concept (PA2)



Source: Authors

26. Monitoring and evaluation of PA1 and PA2 projects is presented in Section 4.9.

from various financial sources (OPs) and implemented by different beneficiaries. More research is needed to fully evaluate experience of the CLLDs as they were implemented relatively late in the current financing perspective. This information could feed into the planning and implementation of the integrated territorial approach.

The Local Action Group (LAG), which is a partnership of different stakeholders, is the core of the CLLD approach; it prepares the development strategy and manages its implementation. The partnership may take two different forms i) a cooperation between different municipalities and ii) a cooperation between different stakeholders including the local administrations, the business, the NGOs. The LAG prepares a Local Development Strategy and divides responsibility between partners in achieving its goals, which usually translates in implementing individual projects. During the 2014–20 period the CLLDs can be supported from the Rural Development Program, OP Science and Education for Smart Growth (OPSESG), OP Human Resources Development (OPHRD), OP Good Governance (OPGG), OP Innovation and Competitiveness (OPIC), and OP Environment (OPE). Combining different funding sources (OPs) was not obligatory. Eventually, 24 LAGs have been financed only by the RDP 2014–2020, the remaining 40 have combined funding from different OPs.

The partnership between municipalities was not an obligatory element of the CLLD approach and bigger intermunicipal partnerships were not promoted. Smaller municipalities, below 10,000 inhabitants, could join LAGs only via a partnership. Hence, in practice, the CLLD concept stimulated cooperation between smaller rural municipalities, while the larger ones tended to operate by themselves. Out of 64 LAGs supported during the 2014–20 period, only ten included three municipalities and none had more, which shows the limited scope of intermunicipal cooperation in LAGs. The two main reasons why the CLLD approach did not stimulate bigger partnerships were i) a low cap on a maximum size of CLLD's budgets and ii) low weight

of a bigger number of municipal partners (and total population) in the scoring criteria during the assessment process (only 11 percent). For instance, a maximum financing from the RDP 2014–2020 was EUR 1 million for LAGs below 15,000 inhabitants and EUR 1.5 million for larger LAGs. Other OPs offered similarly small differentiation for LAGs of different size, which in fact disincentivized larger intermunicipal partnerships (see Annex 2 for more information about experience with CLLD in Bulgaria).

Key messages:

The project lifecycle of an integrated package of investments will involve many stakeholders at different governance levels. It will require their collaboration to develop and implement investments under this new approach that significantly differs to the previous model. Past experience seems valuable and good practices should be utilized, for instance related to the CLLD approach, with the caveat though that CLLDs were much smaller to currently proposed integrated projects, especially ITI concepts. Utilizing ex-post evaluations and any other available evidence about integrated projects (both positive and negative) could help finetune the proposed new model.

Role and capacity of key stakeholders in the integrated approach

National, regional and local level stakeholders are involved in the implementation of integrated territorial approach. They will perform different functions in the implementation of the approach, but their tasks are connected and will require strong coordination mechanisms. Figure 4.3 presents the overview of the stakeholders involved at different levels of the implementation system. Most of the entities are not administratively subordinated to each other, except the relation between MA PDR regional branches and the MA PDR. This is an important element of the system, especially under the PA2, where the so-called 'networking principle' will be applied in performing the new functions of RDCs related to the evaluation and selection of ITI concepts.

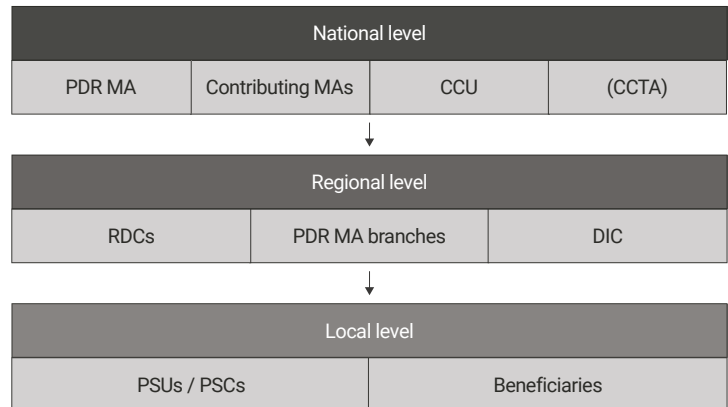
Building the administrative capacity of stakeholders will be one of the key success factors for the successful implementation of the integrated territorial approach.

Across all stakeholder groups similar sets of skills and capacities need to be developed though their specific character will differ depending on the role of a stakeholder in the system. All will require sufficient human resources equipped with information and technical skills that allow them to implement integrated interventions, and have at their disposal sufficient technical resources (e.g. IT system), as well as the financial means to carry out their tasks and potentially hire additional expertise. New tasks and responsibilities will require new types of skills and capacity. The latter can be developed through the provision of high quality and relevant information and training. **One of the key recommendations of this report is to design and implement early on a systemic and sustained capacity building program targeted at different stakeholders to facilitate the implementation of the integrated territorial approach.** Slow uptake of the integrated instruments or low quality of investments could negatively impact the perception of the new approach among the stakeholders and lead to a gradual departure from the path to regionalize the development policy implementation.

National level

The PDR MA is the main author of the integrated approach and its main implementing entity. It will be responsible for the initiation, coordination with other MAs and publishing calls for applications for ITI concepts under the PA2 and all three types of projects under the PA1. It is not yet clear, how the calls financed by the ten percent contributions of other Programmes will be prepared and coordinated (e.g. rolling calls, temporary calls, coordinated and launched by each MA separately or as part of a coordinated cross-MA effort). The PDR MA will evaluate all PA1 and respective PA2 projects in the second stage. PDR MA will prepare the guidelines for PA1 and PA2 projects that will present the

FIGURE 4.3 Levels of the integrated approach implementation



Legend: PDR MA – Managing authority, Program for Development of Regions 2021 – 27, CCU – Central Coordinating Unit, CCTA – Coordination Council for the Territorial Approach, RDCs – Regional Development Councils, DIC – District Information Center, PSU – Project Selection Unit, PSC – Project Selection Committee.

Source: Authors

terms and conditions of calls: their territorial coverage, financial envelopes per NUTS 2, eligible beneficiaries, eligible activities under each program, and the criteria for ITI concept selection. To facilitate the application and implementation process of integrated investments by the beneficiaries, the MA PDR will prepare a User's Manuals for the prospective beneficiaries. Last but not least, awareness raising campaigns about the new approach will be the task of the MA PDR, though the other MAs should contribute their experts and expertise. Such a broad information campaign will be a critical element for preparing the implementation of the approach and activating future beneficiaries, because it is new to stakeholders and the provision of relevant information and guidance will facilitate the elaboration of a sufficient number of high quality integrated project proposals.

Other contributing MAs will support the implementation of the integrated approach through financing projects constituting components of ITI concepts. Representatives of the respective MAs will be delegated to the RDCs to participate in the first stage of the evaluation of ITI concepts with regard to the criteria of their respective Programmes. In the second stage of ITI concept evaluation, the MAs will evaluate the fully developed project proposals that fall into their purview and sign grant agreements with responsible members

of ITI partnerships. The grant award procedure will follow the rules for direct grant awards for which the respective MAS are responsible. The MAS will independently prepare guidelines for utilization of funds from their Programmes. The MAS' responsibility will be to monitor their respective projects (financial, substantive, division by priority axes and by territories), exchange information with other MAS and report progress and results to the higher-level system.

The Central Coordinating Unit (CCU) will oversee the implementation of the integrated approach and ensure coordination with other investing instruments and programs. In principle, CCU's responsibility will be to achieve indicators included in the Partnership Agreement and to this end it will coordinate work of all MAS engaged in the implementation of the integrated approach. To that end the World Bank recommends establishing a Coordination Council for the Territorial Approach, with the CCU as the chair. Additionally, the CCU will be responsible for incorporating any new instruments into the ESIF management system, which could emerge during the programming period, for instance interventions from the Just Transition Mechanism. Finally, it is also responsible for upgrading the UMIS system, to adjust it to the needs for managing and monitoring the integrated approach.

The Bank recommends establishing a national level Coordination Council for the Territorial Approach (CCTA) to help coordinate and monitor the overall implementation of the approach. It is recommended that the CCTA is chaired by the CCU, the MRDPW being its secretariat, and the contributing MAS becoming its members. CCTA meetings would provide a formal format for discussing the implementation of the integrated territorial approach and taking strategic decisions, for instance the potential reallocation of funds between regional envelopes. The CCU's chairmanship would ensure the CCTA

can act decisively. Potential working groups of the CCTA could facilitate taking decisions related to individual ITI concepts. They could constitute a platform for inter-MA discussion needed for taking for example remedial actions when one of the projects in the ITI concept is underperforming. The ability to early on identify ailing projects under ITI concepts and potentially support them or replace them will be key for the success of not only respective ITI concepts, but also of the whole integrated approach. The CCTA should be able to take decisions concerning ITI concept implementation and for resolving inter-MA barriers to implementation. The participation of the MA for SPARD and the Maritime Program the Paying Agency (in the context of its functions with regards SPARD and the Maritime, Fisheries and Aquaculture Program, in addition to their MAS) in CCTA is also recommended to enhance the compatibility of interventions for both rural and urban municipalities²⁷.

The contributing MAS need to enhance their ability to work together, fulfil new tasks and use new tools. During consultations with MAS on the integrated approach, it was evident that over the previous programming periods they have developed their own ways of managing EU funds. They have finetuned their specific internal procedures, adjusted their organizational structure, and developed organization culture. With the new approach, they need to readjust many of these modalities to facilitate joint preparation and implementation of the ITI concepts. The MA PDR as the leading MA needs to have sufficient human and technical capacity to further design and program the new approach, then manage its implementation, and be able to monitor progress and evaluate results. Well-staffed departments with experienced staff are needed to fulfil these tasks. Much detailed technical work is still needed on the further design of the integrated approach (recommendations for this are described in the following sections) that will take time and require a number of iterations. The CCU will need to upgrade the UMIS

27. The Ministry of Agriculture is the MA for SPARD and the Maritime Program. In the current programming period, many functions related to the management of both programs are performed by the Paying Agency. If a similar arrangement is applied in the next period, it is recommended that the Paying Agency is also involved in the monitoring of the integrated approach and the coordination mechanism. Though the report in sections devoted to coordination, and monitoring and evaluation refers only to the MA of SPARD and the Maritime Program, it also implies inclusion of the Paying Agency.

system and all MAS will need to train their staff to use it. New platforms for day-to-day communications and data flow between MAS will need to be developed to facilitate monitoring of the integrated approach. Shall the CCTA be established, new procedures need to be put in place to embed it into the institutional system. Such broad capacity building efforts and making changes to MAS' collaboration patterns will take time but should start as early as possible.

Regional level

The revamped Regional Development Councils (RDCs) are now considered by the GOB to be regional territorial bodies as defined by the CPR 2021–2027. The recent amendment of Regional Development Act and its Implementation Rules significantly reformed RDCs' composition and functions. They are two-tier bodies representing both political and expert level. The 'management level' is composed of a chair, deputy chair and members, and is assisted by an expert team. The mandate of RDC chair and the deputy chair is four years, as is the mandate of all other RDC members. The RDCs comprise members with voting rights when taking all decisions, and observers with deliberative voice. The head of the territorial unit of MRDPW is the secretary of the RDC. The representatives of municipalities in the RDC are stipulated by the representatives of municipalities that are members of the relevant District Development Council on a basis of a selection procedure organized by the National Association of Municipalities in the Republic of Bulgaria (NAMRB). The so-called 'named' RDC members represent: CCU, the Executive Agency for Audit of European Union Funds, Ministries, National Statistical Institute, the Bulgarian Academy of Science, NAMRB, nationally represented employer and employee organizations and universities from a given region. The 'expert level' consists of three units: Mediation Unit, Public Consultations Unit, and Preselection Unit. The first two units consists of nominated experts from the District Information Centers (DICs) in the respective NUTS 2 region, and the last one is composed of PDR MA territorial branches and representatives of other participating MAS.

At the strategic level, the RDCs are responsible for adopting ITSs that set the development directions for NUTS 2 level regions.

The current drafts of ITSs were commissioned by the MRDPW and prepared by the National Center for Territorial Development (NCTD) based on local level consultations and taking into account national plans and sectoral priorities. The RDCs will have the task of endorsing these strategies as documents that guide regional development and integrated investments.

At the operational level, the most important function of the restructured RDCs will be conducting the first stage evaluation of ITI concepts (PA2).

The RDCs will also support prospective applicants of PA2 projects and PAI Type 3 projects in preparing ITI concepts and creating ITI partnerships. These tasks are divided between the Public Consultation Unit, Mediation Unit, Preselection Unit and the RDC's management tier and are described below. Figure 4.2 presents a lifecycle of the ITI concept and engagement of actors at subsequent stages.

The RDCs will not have permanent staff, offices or budget and they will operate on the basis of a networking principle.

This means that individuals performing tasks in RDCs are delegated from other institutions. The head of MRDPW territorial branch²⁸ is a secretary of the respective RDC and staff of MRDPW territorial branches is assigned to perform separate RDC's functions. Some of them will be part of Pre-selection Units; two employees of regional branches will be coordinating the work of Public Consultation and Mediation Units respectively; the rest will be involved in implementation of OPRG 2014–2020 and PDR 2021–2027. RDCs can also be supported by external experts, shall a need arise for additional expertise.

The task of the Mediation Unit is to create an enabling environment for the establishment of ITI partnerships by prospective applicants and preparing ITI concepts.

This unit will for example answer questions from ITI partners about the eligibility of beneficiaries and activities, share templates of

28. This report also uses the term 'MRDPW regional branch' to refer to these units.

documents such as a partnership agreement, inform about the timeline of call for applications for ITI concepts, provide information about required documents to be prepared as part of the application and their specific format, selection criteria, and availability of funding under regional envelopes. To prevent potential conflicts of interest, municipal authorities whose staff is delegated to the Mediation Unit, must ensure their functions are split at the municipal level. Also, there should be no subordination between those Mediation Unit members and the employees in municipalities, who are responsible to prepare, submit, and implement ITI concepts. Finally, to minimize the risk of conflict of interest, the Mediation Units should not assist ITI partnerships in developing the content of ITI concepts and should restrict their advice to technical and formal aspects of the preparation process.

The Public Consultation Units will be responsible for conducting consultations of submitted ITI concepts with broader audience as part of the selection process. This activity will aim at verifying public support for a given ITI concept and receiving feedback that the PCU will forward for review to an ITI partnership. At this stage it is not fully clear how the feedback and expressed support for ITI concepts will be quantified and assessed. This process does not invite a merit-based assessment and could pave the way for subjective decisions. Hence the Bank recommends modifying this function and tasking the PCU with engaging target groups of ITI concepts and seeking their view on the ITI concepts to ensure their specific needs are reflected in the proposed scope of investments. Such a solution could mitigate an ambiguous assessment of public support for the ITI concept and could contribute to enhancing the quality of the ITI concepts by meaningfully involving target groups.

The Pre-selection Units, composed of staff nominated from the MAS, will assess ITI concepts in two stages. First, these units will check the admissibility and eligibility of ITI concepts by applying yes/no selection criteria. The process will end with preparing a list with all eligible ITI concepts. Second, the quality of each ITI concept will be assessed

and scored against pre-defined selection criteria. The MRDPW is currently working on their first draft. A Pre-selection Unit will end its work by preparing a list of all assessed and scored ITI concepts.

The RDC's 'management level', on the basis of pre-defined criteria, will take the final decision about the selection of ITI concepts that were recommended by the Pre-selection Unit. Then the selected ITI concepts will be further elaborated by the ITI partnerships and individual fully prepared project proposals will be submitted for the evaluation to respective MAS.

The Bank recommends that the MRDPW and the RDC establish a grievance or complaints redress mechanism for the whole ITI concept selection process. The system would allow any parties with complaints regarding the ITI concept selection process to lodge their complaints and have them reviewed and responded. This will be important because the system needs to allow for stakeholders to voice their concerns (and respond to them, when such concerns are grounded).

The staff of the remodeled RDCs still need to be stipulated and trained. The amended RDA and its Implementation Rules created a framework for the networking principle for the RDCs. The MAS and DICS that will delegate part of their staff to RDCs. This specific nominations are vital to avoid conflict of interest and is especially important in the case of the MRDPW territorial branches and DICS. Specific tasks should be separated, such as preparation of projects and their assessment, or project implementation and their subsequent evaluation. Furthermore, RDCs' staff who will support ITI partnerships in preparation of ITI concepts need to develop new skills and this should take place ahead of the launch of the approach to allow provision of support to beneficiaries from the beginning. This will involve not only getting acquainted with guidelines and procedures for ITI concept preparation and implementation, but also developing an ability to use an upgraded UMIS, familiarity with new selection criteria, an understanding of the new strategic framework (ITSDS), and an ability to interact with ITI partnership and representatives

of other entities engaged in the ITI approach. Development of soft and hard skills will be important for the effective management of these tasks. Capacity building activities for RDCs and MRDPW territorial branches should be matched with a similar approach towards building the capacity and understanding of prospective applicants and beneficiaries.

In the medium- to long-term the stronger institutionalization of RDCs can be pursued to continue the overall progress towards regionalization of development policy in Bulgaria. Under the current design, the RDCs will rely on the expertise of nominated experts as they are not provided with their own staff or budget. For stronger decentralization of regional development to take place, further empowerment of RDCs will be a key step in the right direction. This would need to be combined with turning RDCs into administrative bodies with permanent human and financial resources and expanding their tasks and responsibilities.

Local level

Under PA1, the newly designed Project Selection Units (PSU) and Project Selection Committees (PSC) are to take part in the first-tier selection of project proposals. Similar to PA2, the project selection mechanism under the PA1 (Type 1 and 2 projects) is to have two stages. Type 3 projects will follow the PA2 path, the only additional requirement will be a municipality's opinion indicating that a planned investment (project idea) under an ITI concept is in line with relevant PIDM.²⁹ The first stage of evaluation will take place at the municipal level and will be based on project fiches submitted by applicants. The second stage, by the MA PDR at the national level, who will base their evaluation on fully-fledged project applications.

The PSUs and PSCs have strong local representation. The PSCs will consist of representatives from the municipal administration and the PSCs will involve representatives of the municipal administration, local and

regional stakeholders, as well as observers from the PDR MA.

The PSUs and PSCs will partly inherit functions of the Intermediate Bodies (IBs) and Working Groups (WGs) involved in the evaluation of project fiches and project proposals in the current financing period. The latter two structures were responsible, at the municipal level, for the selection of urban projects under the Priority Axis 1 of the OPRG 2014–2020. The preparation of project fiches by applicants as a step preceding the development and submission of fully-fledged project proposals was introduced in the middle of the programming period 2014–2020. For the sake of project fiche assessment, the WGs that included stakeholder representatives and their secretariats, which included two representatives of the IBs, were set up. The WG secretariat evaluated the project fiches with assistance of other members of the IB. Then, the evaluations were presented for discussion and approval by the entire WG. In the programming period 2021–2027, the functions of secretariats and IBs as well as WGs will be taken over respectively by the PSUs and PSCs.

As the structures and functions of the PSU and the PSC are still under development, there still appears to be space to consider ways to simplify the PA1 selection mechanism. If the selection mechanism from the period 2014–2020 is maintained, it is recommended that the organization of both entities ensures a clear division between their members and responsibilities. The Bank, in a separate note under this RAS, proposed to MRDPW additional options for reducing the complexity of the PA1 selection mechanism and measures for mitigating potential conflict of interest. In general, it is advisable that the PSCs, which are composed of different local stakeholders will act as a supervising group of stakeholders. They will review and confirm the quality assessment performed by the PSUs and not perform evaluations of criteria similar to the functions of the PSUs. In line with recommendations for PA2, it is important that MRDPW also establishes a grievance or complaints redress mechanism for the PA1 selection process.

29. It is not yet decided what will be the required format for the presentation of the project idea at the municipal level.

Experience from the current financing period reveals that municipalities still need to develop stronger capacity to perform specific functions related to project selection. Provision of clear instructions and working documents by the MA to PSUs and PSCs would be a first recommended step in this process. Further steps could include tailored training for municipal administrations and stakeholders, together with external support and technical assistance where necessary.

Prospective applicants and beneficiaries

Though the group of potential beneficiaries is broad, it is expected that municipalities will be the primary applicants for projects under PDR PA1 and PA2. Other potential applicants include district administrations, agencies (e.g. the Road Infrastructure Agency); representatives of civil society NGOs, employers' organizations, trade unions; business representatives (representatives of small, medium and large enterprises), educational community and academia, etc.

While some stakeholders in Bulgaria have experience with integrated projects, for many it will be a completely new way of planning and implementing investments. The experience from two types of intermunicipal collaborations during the current programming period can be especially useful, namely CLLD and those established for waste management projects (see Annex 2 for more details). Interviews with prospective applicants reveal they have limited understanding of the new approach and are not fully aware of the requirements they will need to fulfil to be able to file ITI concept applications³⁰. More than half of the respondents—potential beneficiaries—surveyed during work under the RAS (to draft the ITI Users' manual) have not yet started the preparation of ITI Concepts. The rest of the potential beneficiaries stated they had a general idea for a potential ITI concept they could develop. Some 20 percent of

respondents already started some preparatory work. With a few exceptions, where initial steps or preliminary expressions of interest are in place, the majority of the respondents have not started the establishment of ITI partnerships, and have not identified specific projects and partners for ITI concepts. Since the integrated approach is a new concept, targeted national awareness campaigns, as a part of a broader capacity building campaign, could support prospective beneficiaries in better preparing for the start of the new programming period.

The preparation of integrated projects will be a demanding process. For instance, the stages of the creation of the ITI Concept idea include: (i) defining, for a specific territory of the NUTS 2 Region, common needs and potential for development; (ii) defining an ITI Concept's objectives corresponding to the common needs/potential; (iii) identifying project ideas which would best contribute to addressing the needs and unlocking the development potential based on: pre-defined projects prioritized in the ITDS; measures and projects at the Municipal Plans for Integrated Development; own analysis and as results of public consultations; (iv) identifying potential partners to implement the projects within the ITI Concept, following economic operator selection procedure and procedures of state aid clearance.

The capacity (human resources, technical and financial) of prospective beneficiaries will need to be enhanced to ensure preparation of high-quality integrated projects. During the previous programming periods, the municipalities gathered ample experience with preparing and implementing by themselves simple single-sectoral projects. The new perspective, however, will require from them new skills and abilities to prepare and manage more comprehensive investments in collaboration with other stakeholders. The prospective beneficiaries who were surveyed assessed the initial stage of developing the ideas for the ITI concept as the most challenging part of the ITI lifecycle. During focus group discussions for

30. In September 2020, the World Bank team organized a series of focus groups with potential beneficiaries and other stakeholders engaged in the integrated approach to gather their feedback about the approach, better understand their knowledge of the proposed solutions, and gather questions regarding the new approach.

the preparation of the draft ITI Users' Manual, beneficiaries suggested more detailed descriptions of this phases of the process should be set out in the ITI Users' Manual and combined with sufficient external support. Focus group participants voiced the need for intensive external advisory assistance at the initial ITI concept stage to support the preparation of analyses and feasibility studies. The participants also requested substantial external technical assistance throughout all stages of the ITI Concept lifecycle. The Bank recommends that one of the goals of the assistance provided to applicants should be support to the identification of a project pipeline of ITI concepts that would set the basis for early absorption of financial resources once the approach is

launched. A lack of well-developed projects is often a bottleneck, and a project pipeline could help mitigate that risk. The approach could also benefit from pre-identification of regional flagship projects that would address key needs of a region. These flagships could be specific large projects that would ensure investing sufficient resources in critical areas. Box 4.1 presents more information about these two ideas.

High capacity beneficiaries will be crucial for the success of the new approach and will require an intensive and broad training program for beneficiaries. It is recommended that such technical assistance is provided in an independent and centralized fashion also at

BOX 4.1 ITI concept project pipeline and ITI flagship projects

To facilitate early uptake of the integrated territorial approach two tools are recommended – the development of a project pipeline for ITI concepts and the elaboration of flagship ITI concepts at the regional scale.

Developing ITI concepts is likely to be a resource consuming and protracted process, hence preparing the ITI concept project pipeline to speed up early applications is recommended by the Bank team. An effective application of this tool will support investment planning and lead to the generation of investment-ready projects through the provision of comprehensive advisory and institutional support to future beneficiaries at the ITI concept preparatory stage. The early engagement of prospective beneficiaries, and encouragement for ITI partnership creation, coupled with expert support for project preparation, will facilitate faster uptake of funds boosting absorption rates of participating Programs. This will be especially important given the shorter timeframe given by the EC for the overall implementation of EU funds in the next programming period.

The project pipeline can be used by the participating MAS as a tool for scouting, prioritizing and fast-tracking (by expediting and/or optimizing) projects that are strategically important for meeting horizontal sectoral objectives in the prioritized fields (currently these are energy efficiency and health care). The project pipeline can also support the development of 'flagship' ITI concepts which due to their foreseen thematic scope, required volume of funding and expected regional impact, can be especially important for meeting regional development goals as defined in ITSds.

The proposed Advisory Hub (see Box 7) could support the implementation of the project pipeline as one of its tasks. The overall objective of this task should be the enhancement of the capabilities of the future beneficiaries to successfully meet requirements concerning the preparation of ITI concepts and constituting projects eligible for co-financing under participating Programs. To this end, the scope of assistance provided to future beneficiaries could cover: the review of eligibility and definition of indispensable changes needed in the identified ITI concepts, provision of technical guidance on issues such as ITI concept applications, required attachments (feasibility studies, environmental impact assessments), estimating economic effects of projects; assistance in drawing up the required attachments (feasibility studies, environmental impact assessments, cost benefit analysis, business plans, description of grant schemes), preparation of tender documentation (dossier) under standards and procedures applicable to the various type projects implemented under the integrated approach.

Regional Advisory Teams could be established to actively scout ideas for ITI concepts in specific sectors/areas and act as 'brokers of ideas' in cooperation with future beneficiaries to stimulate and support the generation of viable ITI concepts.

Flagship ITI concepts would need to be aligned with needs and development directions derived from the ITSds. The below proposals for topics of potential 'flagships' build on the Bank's review of the developmental needs described in regional strategies and NCSd and were created in line with the current vision of the integrated territorial approach. These could be further modified and combined to tailor them to the specific needs of concerned regions and territories.

1. **Industrial centers** – Modern industrial zones and Water supply and sewerage; Efficient SMEs; Vocational schools and dual education; Trainings for elders;
2. **Knowledge economy** – Infrastructures for R&D and innovations; Internet connection
3. **Integrated tourist products** – Integrated tourist products; Vocational schools and dual education; Trainings for elders; Cultural heritage
4. **Healthcare** – Quality public services; Renovation of public buildings;
5. **Recreational territories** – Integrated tourist products; Quality green public spaces and corridors; Transport infrastructure
6. **Territories in crisis** – Modern industrial zones and Water supply and sewerage; Quality public services; Activation of economic inactive; Renovation of public buildings; Transport infrastructure

Source: Authors

the ITI concept development stage (as a 'standard' Technical Assistance under projects will only be available when individual project contract are signed) that would be additional to the technical guidance offered by the RDC Mediation Units, since the latter would focus on supporting the administrative side of ITI concept preparation and not their substance. It would also provide beneficiaries with reliable and unified guidance for compliance with the MAS' guidelines. Similar assistance could also be required for analysis and legal advisory support for potential public-private partnerships. The Bank recommends creating a dedicated Advisory Hub to support this systemic capacity building effort (Box 4.2).

Moreover, an approach to the provision of technical assistance to prospective applicants could build upon good practices from previous approaches, for instance CLLDs. Under this scheme, beneficiaries could obtain support for establishing and running Local Action Groups (preparing strategies, covering staff and running cost, etc.). With respect to the integrated approach, it is recommended to allow ITI partnerships to finance their management body (up to two dedicated full-time equivalents) from such technical assistance. The core responsibility of such an ITI partnership management body would be to coordinate the ITI concept preparation and implementation.

BOX 4.2 Advisory Hub for building capacity of municipalities

One of the key identified challenges for the successful implementation of the new integrated approach is the insufficient experience and capacity of municipalities with regard to integrated investments. Though a wide range of stakeholders can participate in integrated investments, municipalities are likely to be prevalent beneficiaries of projects under the integrated approach, and it is expected that they will often play the role of a leader of ITI partnerships.

Establishing an Advisory Hub for Municipalities is recommended to effectively, systematically and professionally enhance beneficiaries' planning and implementation capacity. The Hub would act as a focal point for expertise with regard to the development and implementation of integrated investments.^a It would not only function as a systemic provider of expert support to municipalities, but also help mitigate identified risks with regard to conflict of interest arising from the foreseen direct engagement of RDC Mediation Units with applicants at the ITI concept preparatory stage. Through a sustainable and comprehensive support mechanism ensuring a sufficiently high and standardized quality of its advisory services, the Hub would also help to avoid potentially fragmented approaches applied by different RDC Mediation Units, and consultancies across regions.

The Advisory Hub should support municipalities during both the development and implementation of integrated investments with regard to:

- strategic planning, and integrated investment planning;
- legal advice;
- financial engineering and potential financing schemes of investments, including the opportunities and rationale behind combining different funding streams (e.g. other participating Programs 2021-2027, Just Transition Fund, EU Resilience and Recovery Facility, private funds);
- technical expertise regarding prefeasibility and feasibility studies, environmental impact assessments, sustainability of investments;
- sharing experience and knowledge, and networking with other municipalities across the country to identify and solve common problems, exchange experience with regard to the development and implementation of integrated investments, search for potential partners for integrated investments ('Partnership Academy') etc.

The Hub could also act as an 'advocate of the local government', identifying systemic problems, challenges and potentials for development. These could be further channeled to the MRDPW and other key players at the central level. In the longer term the Hub could establish its regional offices in the NUTS2 regions. In the future, they could evolve into fully-fledged RDC Offices, if the decentralization is to take place as a major policy reform, or professional Regional Development Agencies that could later on assert the role of regional Intermediary Bodies for 2027+ Programs, if the deconcentration is to take place.

^a The fully developed proposals for the role, required capacity and institutional setup of the Advisory Hub is a subject of a separate proposal prepared by the Bank team to be delivered to MRDPW by end of October 2020.

Source: Authors

Key messages:

The integrated approach will be a novelty to all stakeholders and will require higher capacity from both entities that manage it and prospective applicants and beneficiaries at every stage (programming, implementing and monitoring). A number of general and specific recommendations are offered below:

Actions to address the insufficient capacity of institutions:

- Develop an intensive and sustained capacity building program for staff in respective institutions (RDCs and their units, MAS, PSUs, PSCs, CCU) that will provide trainings during the whole programming period
- Start building the capacity ahead of the system implementation to allow early uptake of funds
- Carry out broad awareness raising campaigns
- Introduce arrangements allowing interinstitutional learning
- Establish the CCTA to help coordinate MAS and monitor the overall implementation of the approach

Actions to address the insufficient capacity of beneficiaries:

- Establish the Advisory Hub to provide systemic, professional and impartial capacity building to prospective beneficiaries
- Early launch of a broad and intensive capacity building program for prospective applicants coordinated by the CCU and responsible MA
- Step up public awareness campaign to disseminate information about the new approach and encourage potential applicants to prepare project ideas
- Clarify which institution will provide support to prospective applicants under the PA1 (Type1b and Type2 projects) in establishing project partnerships
- Provide TA for hiring ITI Concept coordinators (ITI Partnership Manager)
- Establish a mechanism for providing comprehensive advisory support to beneficiaries with regard to development of ITI concept and their implementation (Advisory Hub)

Early uptake of the approach:

- Utilize focus groups and active public engagement methods to gather feedback from stakeholders on the new approach to further finetune its design
- Roll out broad participatory process for gathering ideas for ITI concepts
- Establish the project pipeline to actively support generation of ITI concepts

Managed potential conflict of interest:

- Incorporate mechanisms mitigating conflict of interest in the RDCs and PSUs/PSCs during the development of integrated projects (only formal and technical guidance) and the project selection process by providing clear rules for separation of duties between the entities/units involved in project preparation and evaluation of project proposals.
- Establish transparent and objective project selection criteria
- Design and put in place a grievance or complaints redress mechanism for PA1 and PA2 project selection processes

Move towards the further decentralization of regional policy:

- Plan long term development of the RDCs, their functions and capacities to allow their more pronounced engagement in the regional policy planning and development in the future
- Consider full institutionalization of RDCs with a permanent budget and staff.

Legal framework

The national legal framework, related to the implementation of the integrated territorial development interventions financed by the ESIF, comprises of three groups of legal rules. These are the i) rules on regional development (Regional Development Act or RDA, and RDA Rules of Implementation), ii) rules on intermunicipal cooperation (Act on Local Self-governance and Local Administration), and iii) rules on the management of ESIF (ESIF Management Act and related secondary legislation). The basic acts of the national legal framework are summarized in Table 4.1 and discussed in the further subsections.

From the formal point of view, delays in finalizing and adopting most of the expected acts that will regulate 2021–27 programming period do not need to create a legal gap. This is because the existing relevant acts, pertaining to the present programming period, could be extended to apply to the new programming period subject to minor modifications. The required changes are not expected to be essential and they need to reflect the potential changes in the new EU framework. Furthermore, some of the essentials of those expected acts are dependent on the relevant EU legislation on the ESIF, the former could formally be adopted after the latter is adopted and enacted. The CCU in collaboration with

the MAS engaged in the territorial approach will develop the expected acts.

The situation is, however, different with respect to the dedicated COM Decree on the implementation of integrated approach (‘ITI Decree’). This decree will introduce for the first time a national regulation on integrated territorial

interventions. Therefore, its preparation and adoption are crucial for the timely preparation for, and implementation of that approach, including inter-alia, the buildup of administrative capacity in RDCs and the establishing of an ITI project pipeline by potential beneficiaries. Hence its implementation should be prioritized in the process of adopting the integrated approach.

TABLE 4.1 National legal framework for the implementation of the integrated territorial approach in Bulgaria for the programming period 2021 – 2027

Legal act	Scope
Regional development	
Regional Development Act (RDA)	Basic rules for the planning, programming, management, resourcing, monitoring, control and evaluation of implementation of the system of the documents for strategic planning of the regional and spatial development.
Rules for Implementation of the RDA, adopted by COM Decree 183/2020	Detailed rules for: <ol style="list-style-type: none"> 1. conditions, terms and conditions for the preparation, coordination, adoption, updating and implementation of the National Concept for Spatial Development (NCSĐ), the integrated territorial strategies for development of the planning regions (NUTS 2 level) and the plans for integrated development of the municipalities; 2. organization and tasks of the Regional Development Council and of the District Development Council; 3. monitoring of the implementation of the NCSĐ, the integrated territorial strategies for development of the planning regions (NUTS 2 level) and the plans for integrated development of the municipalities.
Inter-municipal co-operation	
Act on Local Self-governance and Local Administration (Chapter 8)	General rules and procedure for involvement of municipalities in joint activities with other municipalities, central administration institutions and/or other legal entities
ESIF programming and management 2021 – 2027	
Acts In force	
ESIF Management Act	The national institutional framework for the management of ESIF in Bulgaria. Basic rules for: grant awards; selections of contractors by grant beneficiaries; verification and certification of eligible costs; execution of payments; financial corrections under OPS
Regulation, adopted by COM Decree 243/2016	Terms, procedures and mechanism for the functioning of the Information System for the management and monitoring of the funds from the ESIF (UMIS) and for conducting proceedings before the Managing Authorities through the UMIS
COM Decree 142/2019	Preparation of the strategic and programming documents for the management of the ESIF in Bulgaria for programming period 2021 – 2027
COM Decision 335/2019, amended by COM Decision 496/2020	Indicative financial allocation of the ESIF in Bulgaria by policy objectives and programs for programming period 2021 – 2027
Acts expected	
COM Decree	Establishment of monitoring committees for the Partnership Agreement and OPS co-financed by the ESIF for 2021 – 2027 programming period
COM Decree on grant award procedures	Detailed rules for the award of grants under OPS funded by the ESIF for the period 2021 – 2027 (optional: existing COM Decree 162/2016 could be extended, subject to minor modifications, to apply for programming 2021 – 2027 too)
COM Decree on eligibility of expenditure	National rules for the eligibility of expenditure on OPS co-financed by the ESIF for the programming period 2021 – 2027 (optional: existing COM Decree 189/2016 could be extended, subject to minor modifications, to apply for programming 2021 – 2027 too)
COM Decree on CLLD	Rules for coordination between Managing Authorities and Local Action Groups (LAGs) and Fisheries Local Action Groups (FLAGs) related to the implementation of the Community-led Local Development (CLLD) approach for period 2021 – 2027 (optional: existing COM Decree 161/2016 could be extended, subject to minor modifications, to apply for programming 2021 – 2027 too)
COM Decree on ITI	Specific rules on the grant awards to, and implementation of ITI in programming period 2021 – 2027.

Legal framework for regional development

The regulatory framework for regional development has been recently amended to enable the implementation of the integrated territorial approach in the 2021–2027 programme. This involved a substantial amendment to the RDA in March 2020, followed by the adoption of the new Rules for Implementation of RDA in August 2020.

The modified legal framework for regional development has the following main characteristics:

Simplified planning framework

- the previously existing separate spatial planning documents and regional development plans have been merged, as the new type of planning documents now combines both aspects. The new ‘integrated’ planning documents at NUTS 2 level are envisaged to play the role of ‘territorial strategies’, as a prerequisite for the implementation of integrated territorial development actions³¹ (ITI³² and CLLD³³) under the draft CPR 2021–2027. The Plan for Integrated Development of Municipality (PIDM) shall, respectively, play the role of a territorial strategy for the integrated territorial development interventions at municipal level.
- the regional planning levels have been reduced from four to three, i.e. national, regional (NUTS 2) and municipal, by removing the district (NUTS 3) planning level and deregulating the Integrated Plan for Urban Regeneration and Development (IPURD) as a separate planning document for urban areas, integrating it into the Plan for Integrated Development of the Municipality.

New structure and functions of RDCs

The RDA provides for a two-tier structure (management and expert) and new functions of the RDCs. The structure, composition

and functions of the RDC’s tiers and units are developed in detail in the new Rules of Implementation of RDA.³⁴ In particular, the RDCs do not have their own technical or administrative staff (they will be using experts nominated by other entities) and do not dispose of a dedicated budget to cover their operation.

The management tier represents the political level in the RDCs. It consists of voting members (district governors and representatives of municipalities, NAMRB, socio-economic partners, NGOs, local universities, businesses, etc.) and non-voting observers (representatives from ministries, CCU/COM, National Statistics Institute and others). The Head of regional unit of MRDPW acts as Secretary of the RDC.

The expert tier plays operational functions and is made of technical specialists. It consists of three units: Mediation Unit, Public Consultation Unit and Preselection Unit. The first two units will be staffed with experts from the District Information Centers, while the Preselection Unit will comprise of experts from the MRDPW’s regional units and from the contributing MAS, as well as contracted external experts.

This two-tier structure accommodates four different functions of the RDCs, related to integrated regional development:

- representation of the regional public and private stakeholders, related to their involvement in the development and implementation of integrated territorial strategies;
- counselling and facilitation of preparation of ITI concepts, including partnership promotion;
- evaluation and preselection of submitted ITI concepts;
- public consultations on submitted ITI concepts

31. Articles 22–24 of CPR 2021–2027.

32. Integrated Territorial Investment under Article 24 of CPR.

33. Community-led Local Development under Article 25 of CPR.

34. A detailed description of the RDCs’ structure and functions are provided in the previous WB report delivered under current RAS agreements, *Operational Programme for Regional Development 2021–2027: A proposed mechanism to involve Regional Development Councils*

Integrated regional development interventions will be implemented through so-called 'ITI concepts', developed by ITI partnerships

The RDA Implementation Rules define the ITI concept as 'a combination of inter-connected and complementary (integrated) projects/project ideas aimed at areas with common characteristics and/or development potentials, including an appropriate combination of resources and measures to be used purposefully to achieve a specific objective or priority of the integrated territorial strategy for the development of the respective level 2 planning region'³⁵.

An appendix to the RDA Implementation Rules regulates in detail the procedure for the selection of ITI concepts for funding. It is to be carried with the combined efforts of RDC expert units (the Public Consultation and Preselection Units) and of the RDC management tier under predefined evaluation criteria.

Legal framework for inter-municipal co-operation

The legal framework for intermunicipal cooperation is provided by Chapter 8 of the Act on Local Self-governance and Local Administration. It contains rather general rules for the involvement of municipalities in joint actions with other municipalities, central administration institutions and/or other legal entities.

Municipal cooperation is to be carried out on the basis of a cooperation agreement, which has to be approved by the relevant municipal councils. That cooperation agreement should specify, inter alia, the forms of cooperation and/or the type of a joint legal entity to be established, as well as the rules for the set-up, powers, decision-making process and termination of inter-municipal councils and/or commissions, when the municipalities have agreed to establish such bodies for the purpose of their co-operation.

The scope and forms of co-operation are broadly defined, providing a wide range of

options for municipalities. The former can cover, among others, i) joint development, management and/or maintenance of infrastructure, ii) delivery of public services, iii) implementation of joint actions/projects. The latter encompasses any possible form of joint actions between municipalities, other public institutions and/or other legal and natural persons. For instance, these could take a form of joint implementation of projects, establishment of joint commercial or non-profit legal entities (between municipalities or between one or more municipalities and/or other legal and/or natural persons). More research is needed how the accumulated experience from the implementation of framework for intermunicipal collaboration could be adapted to the ITI approach to support the creation of sustainable project partnerships.

Legal framework for ESIF implementation

The legal framework for ESIF implementation, relevant to the integrated approach, comprises of general ESIF rules and specific rules on the integrated territorial approach implementation. The general rules on ESIF implementation, currently applicable to the 2014–20 period, are expected to also apply to the new 2021–27 programming period, after minor updates. The specific rules on the approach implementation are currently being prepared by the GOB.

MRDPW and CCU have decided that the implementation of the integrated territorial approach should be regulated in a dedicated COM Decree. In a derogation of the general national ESIF rules, this special piece of legislation will provide detailed specific regulation (*lex specialis*) of the complete selection, grant award and implementation processes pertaining to ITI. In particular, the dedicated legislation shall provide for a two-phase grant award process to ITI partnerships submitting ITI concepts, involving: i) a competitive selection of ITI concepts and ii) direct grant awards by OP MAS to the fully-fledged individual projects (project proposals) included in the selected ITI concepts. The approach to have a separate COM Decree on the

35. Cf. Clause 1, para. 1 of the Additional Provisions of the RDA Implementation Rules.

integrated approach is in line with the recommendations of the WB team.³⁶

The COM ITI Decree will provide the basis for detailed elaboration of the implementation system for the integrated approach and specific capacity building activities for stakeholders. As of now a first draft of this Decree is being prepared by an internal working group in MRDPW, as its details are not publicly available. The WB team prepared an outline of the essential content for the COM Decree and provided this to MRDPW for use by the internal working group.³⁷ At a later stage, the draft will be discussed and agreed by an inter-ministerial working group comprising of representatives of all contributing MAS. Subsequently, it will be passed to the COM for the formal adoption procedure.

Key messages:

The legal framework is currently modified to accommodate the new approach. Some important changes have been already accomplished, such as modification of the RDA and its Rules of Implementation. More work is still needed to fully shape the legal framework. The single most important document with regard to the integrated approach is the COM ITI Decree that will provide many details on how the approach will function. Its efficient development in collaboration with all contributing MAS is recommended to expedite further planning work. For the success of the approach will be also needed to ensure that RDCs fulfil the prerequisites of a 'territorial body' as prescribed by the CPR.

Thematic and territorial coverage

PDR will be dedicated to the implementation of the integrated territorial approach and will support all 50 urban municipalities in Bulgaria. The program will operate via two PAS—urban and territorial; they differ in terms of targeted territories, offered support measures, engaged institutions, and implementation procedures. Figure 4.4 presents a simplified picture of the approach, common areas between PAS and their differences.

BOX 4.3 Thematic interventions allowed under the PDR PA1

- Infrastructure supporting economic activity, including infrastructure and buildings for the development of business and industrial areas;
- Energy efficiency and renovation of residential and public buildings;
- Sustainable urban mobility;
- Road infrastructure, functional connections and road safety including roads of I, II and III class (outside the TEN-T network);
- Green urban infrastructure and security in public spaces;
- Educational infrastructure;
- Municipal housing;
- Health and social infrastructure;
- Culture and sports;
- Tourism.

Source: Authors

PDR Priority Axis 1 for ten urban centers

The biggest 10 urban municipalities will be supported by three types of projects financed via the PA1 and the six contributing Programmes (Type 3 projects) that need to be in line with the PIDMs, which should follow the ITSDs. The ten selected municipalities are Vidin, Pleven, Ruse, Veliko Tarnovo, Varna, Burgas, Stara Zagora, Plovdiv, Sofia and Blagoevgrad. These project types could be utilized to finance a wide array of interventions (see Box 4.3). The three types are as follows:

- **Type 1: simple projects in an urban municipality**—Type 1 projects are implemented in a single municipality and they use PA1 funds only to finance single sector ('simple') interventions. Eligible beneficiaries are: i) a single municipality (from the ten selected, partnership with other stakeholders is not required), ii) a single other entity (partnership not required), or iii) a partnership between different potential beneficiaries (urban municipalities or stakeholders). The first two sub-types are referred to as Type 1a projects, where partnerships are not required, the third sub-type is referred to as Type 1b where the partnership is mandatory.

36. See p. 67–70 of the 'Strategic Consultation Report' of Nov. 2019 under Component I of the RAS.

37. 'Proposal of the WB team on the scope and essentials of the COM Decree on the terms and conditions for grant awards to, and implementation of, Integrated Territorial Investments'.

FIGURE 4.4 Outline of the integrated territorial approach

Integrated Approach					
Territory	10 biggest urban centers (in four clusters)		40 remaining urban municipalities	215 rural municipalities*	
Financing	PDR Priority Axis 1 (EUR 0.4 billion)		PDR Priority Axis 2 (EUR 1.1 billion)	SPARD**	
	10% from five contributing Programs (EUR 0.6 billion) + Maritime				
Projects	Type 1 (simple project)	Type 2 (territorial integration)	Type 3 (participation in PA2 ITI concepts)	ITI Concepts (integrated projects)	PA2 ITI Concepts (thematic scope of 6 Programs + SPARD)
Selection	PSU/PSC + PDR MA	PSU/PSC + PDR MA	RDC + MAs	RDCs + MAs	
Applicants	Partnership not required (Type 1a) and required (Type 1b)	At least two municipalities in urban cluster	Together with PA2 ITI Partnership	Obligatory ITI Partnerships	Together with PA2 ITI Partnership

Legend: PSU – municipal Project Selection Unit, PSC – municipal Project Selection Committee, MA – Managing Authority, RDC – Regional Development Council, PDR – Program for Development of Regions 2021 – 27, SPARD – Strategic Plan for Agriculture and Rural Development; Maritime Program – Maritime, Fisheries and Aquaculture Program 2021 – 27.

* Rural municipalities will also be able to obtain financing from PDR under priority axes 1 and 2 in the following areas: industrial zones, national road infrastructure, urban mobility, and healthcare infrastructure if these are part of ITI concepts. It still needs to be clarified, whether all rural municipalities will have this opportunity.

** The amount of SPARD and Maritime Program's contributions is currently undefined. They will be determined on the basis of a methodology that considers the specifics of the European Maritime, Fisheries and Aquaculture Fund, the European Agricultural Guarantee Fund and the European Rural Development Fund.

Source: Authors

- **Type 2: territorial integration within an urban cluster**—Type 2 projects will use PA1 to finance interventions (could be single-sector) that bring together a minimum two municipalities of an urban cluster. Eligible beneficiaries: i) a partnership between at least two urban municipalities belonging to the same clusters (PDR groups the 10 urban municipalities in four clusters 1. North West region—Vidin and Pleven; 2. North Central and North East region—Ruse, Veliko Tarnovo, Varna; 3. South East and South Central region—Burgas, Stara Zagora and Plovdiv; 4. South West region—Sofia and Blagoevgrad), ii) a partnership of various types of stakeholders from at least two different urban municipalities included in a cluster (including urban municipality).
- **Type 3: integration within an ITI concept**—Type 3 projects will contribute to ITI concepts and the ten largest municipalities involved in ITI concepts additionally

will be able to obtain financing from the six contributing Programs. Eligible beneficiaries are partnerships between eligible beneficiaries of i) PA1 (entities from 10 urban municipalities), ii) eligible beneficiaries of PA2 (entities from the remaining 40 urban municipalities—see the following section), and iii) rural municipalities for the implementation of ITI concepts.

PA1 offers the ten most developed urban municipalities access to financing for simple investment projects (Type 1a), the remaining urban municipalities do not have such an opportunity under the PA2. Such an arrangement creates more favorable development conditions for the ten strongest cities while not providing such an opportunity to smaller urban municipalities. It would be important for the PDR to provide more evidence to substantiate this differentiation and the size of the financial envelope dedicated to Type 1 and 2 projects.

PDR Priority Axis 2 for the remaining 40 urban municipalities

PA2 will use 'ITI concepts' as a dedicated instrument to foster development at NUTS 2 level and will focus at the remaining 40 urban municipalities. Rural municipalities will also be able use the PA2 financing, though to a limited extent. An ITI concept will combine individual projects into a single 'complex' concept that has a common set of goals, is implemented by a partnership of various stakeholders, and is financed from different sectoral programs. The ITI concepts must directly link to the ITSDs to contribute to the achievement of a desired regional impact that is identified in these regional strategies. The integrated approach allows a broad array of investments, but it also emphasizes the importance of their economic impact. Hence, at least one of the projects within the ITI concept needs to be oriented towards the economic development or implemented by an economic entity.

The ITI concepts will be financed not only via PA2, but also by the selected six sectoral Programmes and SPARD and a part of PA1 devoted to Type 3 projects. The specific scope of the ITI concepts will be decided based upon a set of criteria which will assure compliance between the projects and national sector priorities. The first draft of criteria is now being developed by the GOB. Like PA1, the eligible thematic scope of interventions under the PA2 is broad (Box 4.4).

In general, the thematic scope of the contributing programmes is almost all-encompassing and reflects the variety of challenges identified at the regional level. PDR 2021–2027 covers a broad spectrum of interventions, though its second draft prioritizes two areas—energy efficiency, and health care infrastructure and services. More details are needed to understand how this prioritization will translate into guidance for the integrated territorial approach. On the one hand,

BOX 4.4 Thematic interventions allowed under the PDR PA2

- Health and social infrastructure;
- Educational infrastructure;
- Cultural infrastructure;
- Sports infrastructure;
- Residential accommodation;
- Energy efficiency;
- Investments for sustainable urban mobility;
- Road infrastructure, functional connections and road safety including roads of I, II and III class (outside the TEN-T network);
- Quality and safe environment;
- Measures to promote economic activity;
- Tourism;
- Cultural-historical heritage.

Source: Authors

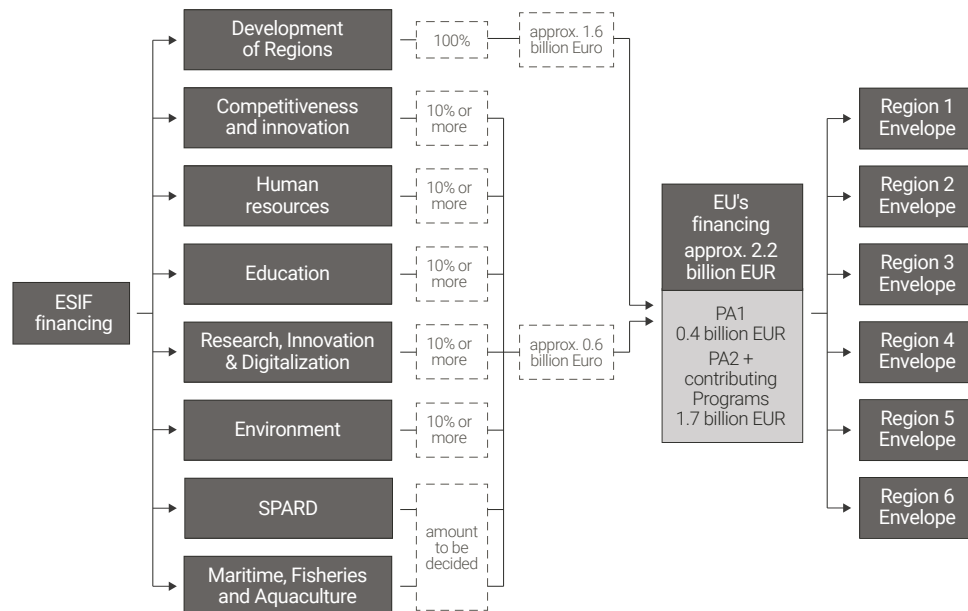
such situation offers prospective applicants needed freedom to tailor their interventions to their specific needs, on the other hand, it does not prioritize investments in areas with the greatest needs. A robust monitoring system will be needed to measure how territorial instruments are implemented and whether a sufficient amount of interventions is realized in the most critical areas to bring about the strategic goals of the integrated approach, i.e. more cohesive growth.

Financial framework

EU funds are to contribute around EUR 2.2 billion for the integrated territorial approach during the 2021–27 (EU co-financing).³⁸ PDR will contribute its full budget or EUR 1.56 billion. The remaining EUR 0.6 billion will come from contributions from five of the seven contributing programs³⁹ (the contribution from the remaining two: the SPARD and the Maritime, Fisheries and Aquaculture Program are still to be defined). Figure 4.5 presents the contribution of individual programs to the integrated territorial approach and the division between the two priority axes.

38. This section provides values of budgets and contributions that refer to the EU co-financing only.

39. According to information received from the MRDPW, amendments in the CMD 335 of 2019, as last amended by CMD 496 of 2020, are being prepared which will exclude the Technical Assistance Programme from the scope of the ITI approach and will include the Strategic Plan for Agriculture and Rural Development and the Maritime, Fisheries and Aquaculture Program.

FIGURE 4.5 Funding structure of the integrated approach (EU's contribution)

Note: PA1 and PA2 amounts do not add up to EUR 2.2 billion due to their rounding, moreover, PDR's technical assistance contribution in the amount of EUR 60 million is not presented.

Source: Authors

PA1 will have a budget of EUR 400 million⁴⁰, out of which around EUR 280 million (or 70 percent) will be dedicated to Type 1 and 2 projects and EUR 120 million (or 30 percent) will go to Type 3 projects. PA1 is allocated to four urban clusters: (1) North–western region (Vidin and Pleven)—21.8 percent; (2) North Central and Northeast region (Ruse, Veliko Tarnovo, Varna)—23.5 percent; (3) Southeast and South–Central region (Burgas, Stara Zagora and Plovdiv)—21.6 percent and (4) South-western region (Sofia and Blagoevgrad)—33.0 percent. The indicative budget of each urban cluster is calculated as per a methodology based on four indicators: population (weight 15 percent); territory (15 percent); gross value added (20 percent) and infrastructure (50 percent). Seventy percent of the budget of each cluster is reserved for the implementation of Type 1 (individual projects or partnership within the territory of one urban municipality) and Type 2 project (partnership within the territory of the urban cluster), while the remaining 30 percent are allocated for participation of the potential beneficiaries from urban municipalities in Type 3 projects, i.e. ITI concepts under PA2. Since ten largest urban municipalities can

easily deplete the EUR 280 million budget for Type 1 and 2 projects, it is assumed there will be strong demand for these resources. Thus, it is recommended that these investments are awarded through a competitive selection to ensure that projects with the highest quality and desired impact are promoted.

The budget of PDR PA2 and the contributions of five sectoral programs for financing the ITI concepts will amount to about EUR 1.7 billion and be implemented through regional budgetary packages. The current draft PDR could provide more pertinent details about the budget management modalities. PDR PA2 will contribute about EUR 1.1 billion and the sectoral programs EUR 0.6 billion. The overall budget is divided into six indicative NUTS 2 regional financial envelopes, calculated as a share of the total budget. The shares of the six regional financial envelopes are calculated similar to PA1, and are defined by applying percentages calculated through the application of a methodology which includes four indicators—3 general (population—weight 15 percent; territory—15 percent and gross value added—20 percent) and

40. Second draft of the Programme for Development of the Regions 2021–2027 provided to the WB team.

one specific indicator per program (50 percent) that reflects sectoral nature⁴¹. As a result, the shares of the regional financial envelopes are the following: North–Western: 20 percent, North–Central: 19 percent, North–Eastern: 15 percent, South–Eastern: 16 percent, South–Central: 16 percent, South–Western (excluding Sofia): 13 percent. It is not yet clear from the PDR whether these regional financial envelopes include earmarked budget allocations for each of the participating programmes reflecting the programs specific indicators per region. Such thematic earmarking within the regional financial envelopes is recommended to ensure that region-specific needs are reflected and that applicants from one region would not have to compete against applicants from another.

A well-developed system for monitoring the financial progress of the integrated approach will be critical for understanding whether the new model gets traction among stakeholders and to identify issues with regard to absorption and disbursement of available funding. The arrangements for monitoring financial progress should serve as an early warning tool allowing for identification of underperforming regions and programs or situations where the regional financial envelopes are being exhausted, and which require timely corrective actions. This is particularly important in the context of the reduced timeframe for utilization of funds (n+2) under the upcoming programming period. Responsibility for the financial monitoring should be with MRDPW (as the coordinator of the integrated territorial approach), RDCs (supported by their Secretariats), CCU and the MAS⁴² of the contributing programs. Their participation in monitoring activities would imply their access to the UMIS system and access rights that would enable monitoring cross sectoral ITI concepts. CCTA, which the WB recommends establishing, should monitor the overall absorption of regional financial envelopes and decide on corrective actions if needed.

Key messages:

Significant resources are dedicated to the implementation of the integrated territorial approach (EUR 2.2 billion, EU co-financing) that will come from PDR and the contributing Programs. These resources represent almost a quarter of the participating programs' budgets. It can be expected that the demand for PA1 Type 1 and 2 projects can easily exceed the available envelope, hence it is recommended to apply a merit-based competitive procedure to award these grants. This would allow selecting projects with the highest quality and value added. In PA2 it could be useful to earmark sectoral contributions per region to allow covering the most critical regional needs and to allow weaker regions taking advantage of these resources. Details about contributions of the Maritime Program and SPARD need to be still developed and they will increase the overall allocation for the new approach. A proper monitoring system will need to be installed to keep track of different financial dimensions of the new approach (analyses per region, per priority objective, per Program etc.). The UMIS system will need to be remodeled to enable proper monitoring of integrated projects, as well as providing access of a broader group of stakeholders to the monitoring data.

Guidelines for elaboration and implementation of territorial instruments

The 'ITI Guidelines' developed by MRDPW together with the 'ITI User's Manual', endorsed by the MAS of contributing programmes, constitute important elements of the ITI framework and will be useful tools for the prospective beneficiaries throughout the ITI project cycle. MRDPW developed two sets of guidelines for beneficiaries in the context of the draft PDR and the other contributing programmes. These are PA1: *Guidelines for the preparation of urban development investments under PDR 2021–2027* and PA2: *Guidelines for the preparation of projects under the ITI concept (ITI Guidelines)*⁴³. The ITI User's Manual, will supplement the ITI Guidelines with the goal of mitigating the risk of the fragmentation of documents regulating the application and implementation process. It will also provide stakeholders with guidance at different stages of implementation of the new approach, such as: preparing ITI concept ideas, ITI partnerships, ITI concept/project's development, implementation, coordination and sustainability. Considering differences in approaches under PA1 and PA2, separate manuals will need to be developed, one for the PA2

41. E.g. programme environment—"share of the population (%) connected to wastewater collection and treatment systems"

42. The responsibilities should also include setting milestones and estimate annual absorption and disbursement targets under each of OPS.

43. General instructions for preparation of projects supporting of the integrated territorial development of the NUTS 2 regions with EU funds 2021–2027. These instructions contain document templates: Partnership Agreement, ITI General Framework Agreement, ITI Application Form and ITI Selection Criteria.

(including Type 3 projects from PA1) and the other for the PA1 that reflects differences between Type 1a, 1b and 2 projects. Prior to preparing such a manual for PA1 projects, a final selection mechanism and institutional framework needs to be adopted. The endorsement of the ITI User's Manual by the MAS of relevant OPs would ensure a standardized approach to ITIs across Programs, uniformly applied under the 2021–2027 programming period. The lack of such standardization could have a negative impact on the efficiency of the system and the creation of a unified approach would help beneficiaries better understand the new approach.

Final versions of the ITI Guidelines and ITI User's Manual should provide sufficient and updated information about the life-cycle of ITI concept. Currently, the majority of the strategic documents (Programs, ITSDs) are at the draft stage. This does not allow for providing sufficient details with regards to the regional strategies' indicative list of priority investments, the minimum and maximum scope of funding per ITI concept, eligible types of projects per program, etc. The ITI COM Decree which is under preparation will aim to provide clarity on certain important aspects of the ITI concept development, implementation and sustainability E.g. calls for proposals, selection and complains, mandatory integration of the projects under the ITI Concepts and consequences in case of a failure of an individual project, a coordination mechanism of MAS related to the integrated approach, state aid clearance procedure, etc.

During focus groups (FGs) discussions held with prospective beneficiaries during the preparation of the ITI Users' Manual, beneficiaries assessed the initial stage of developing an idea for an ITI concept as the most important and most challenging task⁴⁴. They also indicated that this stage would need to be elaborated in detailed in the ITI User's Manual. They also confirmed that potential beneficiaries would also need sufficient external

support to potential beneficiaries, for instance in preparing analyses and feasibility studies. Such technical assistance would go beyond what is expected from the RDCs' Mediation Units. Beneficiaries also seem to prefer that it is provided by an independent and centralized service, which ensures reliable and unified guidance in compliance with the MA's requirements. Beneficiaries also felt that such external support could help mitigate the risks, which emerged with regard to integrated projects that were prepared back in 2015.⁴⁵ At that time, one of the reasons these integrated projects did not go beyond the planning stage was lack of funding for project preparation, for instance for feasibility studies.

The Guidelines and ITI User's Manual should describe the ITI concept development mechanism and help applicants prepare high quality ITI concepts. Focus group participants repeatedly requested a detailed description of the procedure for developing ITI concepts to ensure that they are compliant with the strategic documents, prioritized and coordinated through public consultations at an early stage. Since the integrated approach is new to most prospective beneficiaries, it could be beneficial to create a platform for exchanging information about the experience with ITI concepts' development and implementation and searching for potential partners and/or ITI ideas. Such a 'Partnership Academy' could be part of the Advisory Hub's functions, which is recommended to become a key institution responsible for systemic and professional capacity building of beneficiaries (see Box 4.2).

The 'one for all and all for one' principle of ITI concepts' internal integration of projects could be relaxed to avoid the necessity to terminate the whole ITI concept because of the failure of a single project. While such 'strict integration' may seem to promote achieving the full impact of selected ITI concepts, it may also discourage potential beneficiaries from engaging in more ambitious projects. Preparation of ITI concepts

44. During the period 9–14 September a survey and six focus groups with 25 stakeholders were carried out in the context of the ITI Users' Manual. The FGs included representatives of all range of prospective beneficiaries and RDC expert units from the six NUTS 2 regions in Bulgaria.

45. In 2015, the National Center for Territorial Development led an effort to develop an integrated approach for investments for the North–West Region of Bulgaria. The effort was participatory and involved a range of local, regional, and national stakeholders and was perceived by key beneficiaries as being well-prepared.

and their implementation will be a laborious and long process that can take years. The lack of flexibility to terminate or replace individual projects within ITI concepts or modify some of their elements to adjust them to changing socio-economic situations might lead to termination of high quality and high impact ITI concepts. In turn, Programmes' targets and indicators might also be negatively affected. Hence 'soft integration' of the ITI concept's projects is recommended that would allow terminating or replacing individual projects from the ITI bundle. For instance, it could be achieved thanks to defining different categories of projects within an ITI concept, like core and non-core projects and/or main and complementing (subordinated) ones. Another option could be to allow certain flexibility with regard to the ITI concept's ability to achieve approved indicators, e.g. through an 'under-performance tolerance range'.

Key messages:

MRDPW is in the process of developing the Guidelines for beneficiaries (for PA1 and PA2) and the ITI User's Manual to help prospective beneficiaries understand the new approach. This process of finalizing these should be a multi-MA endeavor as these documents will be a key reference point for beneficiaries. MRDPW has already started an information campaign and it is recommended that it is scaled up to raise awareness about the new system. This campaign could be rolled out together with a broad capacity building program and complemented with establishing the Advisory Hub. Replacing the currently envisaged rule of strict integration of the ITI concept with the soft integration principle could be beneficial and would introduce much needed flexibility in case a project within an ITI concept is underperforming.

Project proposal evaluation and project selection mechanism

The evaluation and selection mechanism are a key part of operationalizing the strategic framework of the new integrated territorial approach and translating it into a set of territorial investments conducive to achieving development objectives. This mechanism should be designed to enable well-informed,

objective, impartial, and carefully considered decision making through a robust and transparent procedure, applying a well-thought-out set of evaluation and selection criteria (see Box 4.5). Its streamlined design should also support the adequate pace of absorption of available funding by future beneficiaries. The evaluation and selection mechanism cover the following elements, which have to work in concert with each other:

- **procedures** clearly distributing roles and responsibilities between evaluating bodies, safeguarding against conflict of interest and ensuring transparency and credibility of the selection process (to be prepared by PDR MA);
- **project selection criteria** to assess the eligibility, quality, and viability of project proposals (to be prepared by PDR MA and other MAs of Programs involved in the implementation of the integrated approach, and endorsed by Monitoring Committees of these Programs), and
- **guidance for applicants** to support a well-informed process of elaborating project applications and good understanding of the selection process and its stages (to be prepared by PDR MA).

Adequate capacity of both evaluators and project applicants is a key enabler of this mechanism. The evaluators need to be able to carry out impartial, expert evaluation of projects proposals. The project applicants must generate high quality project proposals in line with Programs' requirements.

BOX 4.5 Key characteristics of a robust evaluation and selection mechanism

- Streamlined design facilitating swift uptake of funds by prospective beneficiaries;
- Effective arrangements to mitigate conflict of interest and to enhance the transparency of the process;
- Partnership principle observed in line with the requirements for territorial instruments;
- Enabled prioritization of high quality, impactful projects through merit-based competition between applicants.

Source: Authors

Evaluation and selection procedures (PA1 and PA2)

The Monitoring Committees for relevant Programmes will have the power to endorse selection criteria for territorial investments prepared by relevant MAs.

The Monitoring Committees will be established after the approval of the Programmes for 2021–2027. The PDR MA will be responsible for organizing and launching calls for proposals for urban projects (PA1) and ITI concepts (PA2). The schedule of calls, their duration, financial allocation and time dedicated for each of the stages should be closely coordinated with the relevant MAs, RDCs and municipal administrations of urban municipalities eligible under PA1 to ensure smooth cooperation of all key stakeholders.

A two stage evaluation of project applications is envisaged both for urban projects under PA1, as well as for ITI concepts supported from PA2 and from other relevant Programmes (Box 4.6). The municipal (PA1) and regional (PA2) tier will be entrusted with the responsibility to conduct the first stage of the evaluation and selection process becoming the main ‘filter’ of project ideas (see section 4.1 for details). The relevant MAs will be in charge of the second and final stage of evaluation of fully developed project applications. The role of both territorial tiers will be substantial, as the right of the MAs to reject project proposals will only be limited to situations where formal deficiencies are identified.

Some modalities of this horizontal division of responsibilities and the sequence of the selection process are still being finetuned, with a view to making this mechanism more streamlined.

This ‘regionalization’ of the key stage of the evaluation process confirms the intention of the Bulgarian government to strengthen the role of regional and local administration in EU funds management and to apply a more ‘territorial lens’ to project selection. The involvement of the RDCs (acting in broader format) and the Project Selection Committees (PSCs) in the first stage of project selection represents the partnership principle in action, as both these bodies cover a wide range of local (PSC) and regional (RDC) stakeholders. Measuring public support for submitted project proposals is also envisaged to be a mandatory element of the first stage of evaluation for urban projects and ITI concepts.

Despite its merits with regard to the greater involvement of the territorial tier, the proposed institutional and procedural set-up of the selection mechanism is complex. It foresees the involvement of a high number of different bodies assigned with different project selection functions, acting in parallel or one after another. It is also likely to be time consuming and generate substantial administrative burden for all involved entities throughout the entire process, putting at risk the prospects for swift uptake of funds. Last, but not least, the fact that some key functions belonging to different phases of the project cycle are merged under one entity (the municipal Selection Unit and Projects Selection Committee under PA1, and the RDC expert and management tier under PA2) raises concerns with regard to the risks of potential conflict of interest. This may negatively impact the transparency and credibility of the selection mechanism. Furthermore, the proposal to include the measurement of public support as one of the elements of the evaluation mechanism, which could be prone to subjectivity, manipulation and solicited lobbying also, raises concerns that should be addressed when finalizing the design of the mechanism.⁴⁶

BOX 4.6 Two-tier selection process of integrated projects

First stage:

- PA1: evaluation and selection of project fiches by municipal Project Selection Units and Project Selection Committees
- PA2: evaluation and selection of ITI concepts by RDC Preselection Units and RDC management tier

Second stage

- PA1: evaluation and final selection of the fully-fledged project proposals by PDR MA
- PA2: evaluation and final selection of the fully-fledged project proposals by respective MA (depending on the thematic scope of the ITI concept, these could be PDR MA and other contributing MAs).

Source: Authors

46. Possible options to effectively address these risks while streamlining the selection mechanism were previously formulated by the WB team and submitted for the MRDPW’s consideration.

Project selection criteria (PA1 and PA2)

The integrated nature of projects to be supported under the upcoming programming period requires a more strategic approach compared to the applied selection criteria used in the previous period. This is especially true at the first stage of evaluation. MAS should be encouraged to build upon their rich experience with individual project selection and support the MA PDR in formulating a set of strategic selection criteria that will facilitate the identification and selection of project which:

- can contribute most to achieving territorial (bottom-up) development objectives as defined in the PIDMS (PA1) and in ITSDS for NUTS 2 regions (PA2) and are supported by viable partnerships of applicants, and
- are in line with PDR 2021–2027 intervention logic and of the other Programs involved in the integrated territorial approach.

These criteria should also ensure that specific sectoral objectives (top-down) recognized as high priority for the Bulgarian government⁴⁷ are adequately reflected and addressed in projects selected for funding.

The preparation of project selection criteria by the PDR MA and relevant MAS is still at the early stage, but key prerequisites for their formulation can already be indicated. These criteria should provide evaluating bodies at the municipal (PA1) and regional (PA2) level, as well as at the central level (MAS), with an effective tool for conducting credible and transparent assessment of submitted project applications. The aim is that this will lead to the selection of the most impactful projects to be implemented by well-developed project partnerships. For the prospective applicants, these criteria should serve as a clear guidance with regard to the expected scope, impact and quality of integrated projects that will be useful in the process of elaboration of their applications, thus increasing their chances for obtaining financing. Reflecting on the progress

achieved so far with regard to the elaboration of project selection criteria they will likely be divided into two groups:

- Criteria for the **assessment of the integrated character of proposals and their territorial impact**—designed to assess how adequately submitted project ideas represent the integrated approach to addressing development challenges or potentials, including the combination of different projects, selection of partners, expected impact of the integrated packages of projects for the targeted area and target groups;
- Criteria for the **assessment of the general quality of proposals**—designed to assess key ‘regular’ parameters of a project proposal, including eligibility of applicants, capacity of partners-applicants and organizational setup of the project partnership, budget, indicators and target, implementation plan, identified risks and preventive measures etc.

At this stage the final division of these specific selection criteria between stages of the evaluation process and evaluating bodies is not finally decided, and different options are being considered. Regardless of the shape of the eventually adopted set-up it is of paramount importance that the applied set of selection criteria is comprehensive enough to evaluate all key dimensions of the projects proposals and to support merit-based selection of projects (Box 4.7).

BOX 4.7 Recommended arrangements for merit-based competition between project proposals

- Organization during the programming period of several calls for project proposals with fixed closing dates and fixed budgets per the call;
- All project proposals submitted within the call’s deadline are evaluated in parallel by relevant evaluating body/bodies;
- Ranking lists of positively evaluated projects proposals from one call are prepared presenting the outcome of the evaluation process; funding is awarded – within the limits of the given calls’ budget – to those project proposals that received highest scores;
- Reserve list of positively evaluated project proposals which did not receive funding due to the call’s budget being exhausted is kept; if during the next call’s the budget is not exhausted due to insufficient number of quality projects the projects from the reserve list could be provided funding or if any other funds are released from already contracted projects.

Source: Authors

47. These include e.g. energy efficiency measures, and health care infrastructure and services.

Merit-based competition should be at the heart of the evaluation and selection mechanism. Available funding will never be sufficient to exhaustively cover all territorial development needs, therefore investments selected for funding under the integrated approach should be impactful to maximize development outcomes. Therefore, this limited funding should be made impactful through a carefully considered selection process facilitating the identification and prioritization of projects best contributing to municipal objectives.

‘First come–first served’ principle does not promote the selection of highest quality and the most impactful projects. It also does not promote more complex integrated projects addressing multi-dimensional development challenges which require more time to be developed. Instead, it encourages simpler, fragmented interventions that are less likely to generate expected development impact.

Successful efforts to promote high quality project proposals and to support their development do not start with the adoption of project selection criteria or with the announcement of the call for projects proposals but should precede these. Apart from providing the prospective applicants with clear and sufficiently comprehensive and detailed information about the modalities of the application process, the strategic framework should be a useful tool for developing sound project ideas. No efforts should be spared to ensure that relevant territorial strategies are sufficiently prescriptive with regard to the scope and expected development outcomes of investments that should be implemented to meet strategic objectives identified for a given territory. The more concrete the strategies and plans the easier the task for applicants to generate specific project ideas contributing to development objectives, as well as for evaluating bodies to assess strategic compliance and prioritize most impactful projects. Considering that both ITSDs and Municipal Integrated Development Plans are still under preparation there is still room to support the identification and prioritization of future investments in line with the operational and financial framework of the new integrated approach.

Key messages:

Project selection processes and criteria are currently being developed by MRDPW in collaboration with other MAS. The Bank presented proposals and drafts of these solutions to MRDPW and recommended a number of technical solutions, such as:

- Simplify the selection processes of projects under the integrated approach, especially for PA1 projects
- Design transparent selection procedures promoting merit-based selection of projects and mitigate conflict of interest
- Prepare transparent and possibly objective criteria and align them with higher-level documents
- Promote projects with biggest territorial impact through skillfully designed selection criteria to reap full benefits of limited available funding when compared to regional investment needs
- ‘First come–first served’ competition principle should be avoided as it does not promote the selection of projects with the highest quality and impact.

Coordination mechanism

The integrated territorial approach is inherently a multi-level governance policy arrangement since it requires the engagement of local, regional and central stakeholders for its development, implementation, and follow up. The multi-faceted nature of territorial instruments is particularly pronounced with regard to PA2 ITI concepts, where multiple funding streams are envisaged. Putting in place and maintaining an effective and efficient coordination mechanism to ensure proper and sustained collaboration between key actors and alignment of their actions will be one of the key success factors for the new approach.

Coordination is needed to ensure compatibility and interoperability of various elements of the planned system in several dimensions at every stage of the policy life-cycle. These include i) strategic planning phase, when the approach is designed, ii) operationalization and capacity building phase (preparation of technical and financial solutions, procedures, operational mechanisms and in the process of capacity building of all involved stakeholders), iii) the implementation phase, to manage project selection and flow of funds, and to monitor and assess the overall effects

of the approach as well as to internally manage individual packages of investment; iv) evaluation and finetuning phase, to identify areas with scope for improvement (see Section 4.8 for details of monitoring and evaluation).

The multi-stakeholder nature of integrated investments requires a new approach to coordination among different types of actors across levels of governance. Their major groups are presented in section 4.1 and include national level (the participating MAS⁴⁸ and CCU, with the overall coordination exercised by CCTA; inclusion of SPARD and the Maritime Program's MAS in the works of CCTA is recommended), regional level (RDCs, DICS, and territorial branches of MA PDR), local level (PSUs and PSCs), finally the beneficiary/project partner level.

Robust coordination should also enable the effective exchange of information and decision-making at the level of integrated investments, especially important for ITI concepts ('micro' level), and at the level of integrated approach ('mezzo' level). The 'micro' level coordination should ensure efficient collaboration and alignment of actions with regard to smooth implementation of an integrated package to maximize development outcomes. On one hand, it should facilitate the work of partnerships implementing integrated investments, on the other hand, it would support MAS in taking decisions about individual integrated packages. The 'mezzo' level coordination refers to synchronizing sectoral policies that contribute to the integrated territorial approach and ensuring every sector

TABLE 4.2 Coordination needs at the implementation stage of the integrated approach

Phase of implementation	Actions to be coordinated	Engaged stakeholders
Project selection	<ul style="list-style-type: none"> development and endorsement of project selection criteria for territorial instruments across relevant Programs (first and second stage of evaluation) development of other key documents related to organizations of call for project proposals (e.g. catalogue of eligible costs under Programs, state aid schemes, specific rules for calls, financial envelopes with funds from participating Programs; schedule of calls for projects proposals with dedicated financial envelopes, identification of evaluating experts) involvement of experts from participating MAS in evaluation of ITI concepts in line with the net-working principle (first stage of evaluation) and call schedule evaluation of fully developed project proposals (second stage of evaluation) 	Participating MAS, RDCS
Implementation of projects	<ul style="list-style-type: none"> signing and annexing (if required) of grant contracts for individual projects from ITI concepts/project packages financial management (e.g. disbursements, financial corrections) of projects project controls introduction of modifications to the Programs and their implementing documents with impact on the modalities of integrated approach 	Participating MAS
Monitoring and evaluation	<ul style="list-style-type: none"> collecting data to estimate volume of projects and required funding prior to their official submission to allow for better-informed financial planning (data from the RDC Mediation Units) to better manage processes collecting data with regard to financial and physical progress of supported integrated investments (UMIS) early warning system to identify underperforming projects (and integrated packages) and take action sharing data and outcomes of conducted analyses of monitoring data with the CCTA to support evidence-based decision-making monitoring performance of the RDCs with regard to their new functions under the integrated approach (e.g. mediation, first stage evaluation of ITI concepts) coordinated evaluation of ITI concepts/packages of projects or their specific types coordinated evaluation of the overall effectiveness of the integrated approach as a new policy paradigm 	RDCS, MAS, CCU, CCTA
Communication	<ul style="list-style-type: none"> on-going assessment of the effectiveness of awareness raising activities dedicated to prospective applicants (based on feedback from the RDC Mediation Units and quality of submitted ITI concepts), and development and implementation of mitigating measures identification of cases of insufficient/outstanding demand for funding (e.g. with regard to territory, thematic objective, type of eligible beneficiary), and development and implementation of mitigating measures 	RDCS, participating MAS

Source: Authors

48. The term 'participating MAS' refers to MAS of all eight Programs contributing to the integrated approach. Since SPARD (and Maritime Program) was added to the integrated approach at the later stage, participation of these MAS is emphasized, otherwise, they are captured by the term 'participating MAS'.

is fulfilling its part and, if needed, designing actions to address issues that arise. It will be paramount for maximizing development effects of the integrated approach for the whole country. Finally, also a 'macro' level coordination will be required that oversees how the integrated approach is contributing to the overall development policy of the country. That is through using all available relevant funding streams from different policies to generate envisaged impact (e.g. rural development policy, COVID-19-related recovery efforts, energy transition measures). This last level, however, is beyond the scope of this document.

Establishing the CCTA as a formal inter-ministerial coordinator of the implementation of the integrated approach is recommended. Effective management requires sound inter-ministerial collaboration and synchronization, and sustained commitment of all key stakeholders. Experience of EU Member States implementing integrated territorial instruments in the 2014–2020 programming period reveal that challenges generated by inter-ministerial cooperation are often underestimated. The most common challenges include differing priorities among ministries that negatively affect the smooth implementation of integrated investments and resource constraints. The participating MAS will most likely not be able to efficiently solve these problems by themselves and introducing 'a referee' with sufficient political leverage is recommended.

BOX 4.8 Coordination Council for the Territorial Approach (CCTA)

The proposed CCTA, to be supported by the CCU, should take charge of managing inter-ministerial collaboration with regard to the integrated approach to guarantee effective collaboration between MAS. Such a coordination body is indispensable for the success of the approach. Its support by the Deputy Prime Minister's Office would be an optimal solution to solve potential disputes among the MAS. PDR MA would perform the functions of a Secretariat to the CCTA. The CCTA meetings would provide for key central level stakeholders a formal format for discussing the implementation of the integrated approach as a whole, including progress, identified challenges and risks, required mitigating actions, as well as desired scope of adjustments to be introduced into the policy design. The CCTA should be entrusted with the power to take strategic decisions with regard to the implementation of the new approach. Working group(s) of CCTA could be established to provide a regular format for MAS to discuss more technical implementation issues with regard to specific ITI concepts. Participation of SPARD and the Maritime MAS is recommended to allow urban-rural coordination. CCU's political supervision could promote sustained commitment of all key stakeholders throughout the entire programming period.

Source: Authors

MRDPW, despite being the champion of the integrated approach with the highest invested stake in this new policy paradigm, does not have the *primus inter pares* status. It is one of the line ministries with a status equal to other ministries. Box 4.8 describes key potential features and functions of the CCTA. In order to promote synergies between policies and encourage better cross-management of support measures especially with a view to more effectively address the issue of urban-rural divide the participation of representatives of SPARD MA in CCTA is recommended.

The Partnership Agreement 2021–2027 and dedicated COM Decree covering the integrated approach are two key documents establishing the coordination mechanism. They will also provide the regulatory framework for potential creation of the CCTA. The Partnership Agreement and the COM's ITI Decree together with the relevant Programmes for 2021–27 will, among others, set forth the demarcation line between the participating Programmes (i.e. a division for what each of the Programs will finance to maximize the effects of available funding by promoting complementarities and synergies) and describe dimensions and modalities of the collaboration arrangements between participating MAS. A draft of the Partnership Agreement has recently become available and the COM's Decree is not yet available to the Bank team. This limited the Bank team's ability to conduct deeper analysis of the envisaged solutions. It is recommended the GOB prioritizes the elaboration of the COM Decree and the Partnership Agreement to enable timely preparation and implementation of the integrated approach. Active participation of the contributing MAS in this process will be crucial to allow the development and consequent implementation of a coherent framework.

It is recommended that the MAS coordinate preparatory work with regard to specific solutions and mechanisms that will apply to the integrated territorial approach under their respective Programmes prior to the adoption of the Partnership Agreement and the COM's ITI Decree. Since PA2 ITI concepts will be financed from different funding sources, it is critical that Programme specific procedures and guidelines are compatible

to help beneficiaries navigate the integrated approach and successfully implement their projects. The procedures applicable to beneficiaries could be split into two groups application procedures and project implementation. The application procedure covering **the first phase** (ITI concept application) will be a single process culminating in the evaluation by the RDCs, which will be supported by various MAS, hence it would not require specific regulation by the MAS involved. **The second stage**—the direct grant award by contributing MAS to individual projects included in a selected ITI concept—foresees fully-fledged project applications to MAS. The terms, conditions and timing of the direct grant awards at this stage by various MAS could be regulated in a possibly similar manner in the procedural manuals of all involved MAS. This would provide clarity, certainty and equal procedural rules for all involved beneficiaries of individual projects, in order to ensure a smooth and predictable flow of ITI applications and implementation process.

A separate chapter, or section, in each contributing Programme devoted to the Programme's contribution to the integrated approach and its modalities would provide clarity on the implementation system for prospective beneficiaries. These chapters should have a similar structure and differ only in so far as they reflect the organizational and thematic characteristics of the individual Programmes. Described elements should include the processes for the appointment of representatives to the RDCs, grant award procedures, applicable state aid schemes, ex-post control on contractor selection procedures, verification of expenditures and payments, on-the-spot checks, and administration of irregularities.

Monitoring and evaluation

The cross-sectoral and territorial nature of the new approach requires adopting a new way for monitoring and evaluation (M&E). The process of M&E will need to be broadened to cover not just tracking the performance of individual projects, but of entire packages of

Key messages:

The integrated territorial approach requires strong coordinating mechanisms to facilitate its design, implementation and finetuning. A large number of diversified stakeholders, who contribute to the approach implementation at different governance levels and at stages of the process, emphasizes the need for effective and efficient coordinating arrangements. Robust coordination should enable smooth information flow and facilitate decision making at the level of integrated investments and integrated approach. The Partnership Agreement 2021 – 2027 and dedicated COM ITI Decree are two key documents that will shape the coordination mechanism. The Bank presented the following specific recommendations with regard to this aspect based on the information available:

- Establish the CCTA to facilitate coordination and supervision of the implementation of the integrated territorial approach at the MA level
- Introduce separate chapters in the contributing Programs, related to the integrated approach, that will have compatible structure and content to allow prospective applicant easier overview of the implementation system
- Establish cross-institutional working groups to allow contributions from different stakeholders at planning and implementation stage
- Consider possible flexible solutions in the demarcation line to allow future adjustments
- Establish clear and transparent procedures on how funds between Programs and their priority axes could be shifted, should some instruments not perform as expected
- Ensure the ability to replace individual projects within the ITI concepts, shall one fail, by creating the project reserve list and scoring all the applications that pass the formal assessment
- Ensure elaboration of compatible guidelines, user's manuals and procedures
- Create a platform for beneficiaries to exchange information about integrated instruments
- Incorporate flexibility into the system to allow future additions of instruments/programs, for instance Just Transition Mechanism and Fund
- Upgrade UMIS to allow proper management of projects supported under the integrated approach and the overall approach.

projects and their tangible and intangible outcomes. Given the approach is new and novel, it will be important for CCU, MRDPW and participating Programmes to set up a robust monitoring and evaluation framework that goes beyond tracking financial and physical progress with regard to implemented investments, but provides comprehensive, credible and timely information. This should be developed in a way to allow for an evidence-based decision-making process that could lead to the introduction of necessary policy adjustments to enhance the effectiveness of the approach. The implementation of the new approach will pose a steep learning curve for all key stakeholders and a robust monitoring system should support this on-going learning process throughout the entire policy cycle.

Monitoring will take place at several levels with regards to financial and substantive

implementation of the new approach. The granularity of monitored data and its territorial and thematic scope will differ across these levels. A comprehensive monitoring system should consist of four levels:

- strategic (policy level covering the overall integrated approach),
- regional (NUTS 2),
- single integrated project (PA2 ITI concept or PA1 Type 1b and Type 2), and
- individual projects (components of ITI concepts).

Monitoring will also have to be a multi-stakeholder endeavor, with the participation of all contributing MAS, relevant territorial bodies (RDCs, PSUs, PSCs) and project beneficiaries. Identification of bodies engaged in monitoring, clear distribution of roles and securing adequate resources to perform them (e.g. trained staff, technical tools, reporting schemes) is important to ensure the overall transparency and efficiency of the system. CCU—acting in close collaboration with the MA PDR—will have a leading role in organizing the monitoring and evaluation framework of the overall integrated approach. It is recommended that the CCTA will be the main recipient of the aggregated data flowing from the engaged institutions (MAS, RDCs, PSUs/PSCs) necessary to track progress of the overall policy and to assess its efficiency. Table 4.3 identifies four monitoring levels and proposes bodies responsible for each of these.

At the level of an ITI concept (PA2) the Coordination Team will be created on the basis of the ITI partnership agreement that will be composed of all actors implementing projects under the ITI concept. This Team will prepare quarterly progress reports from the

ITI concept implementation that will be then reviewed by a territorial branch of MRDPW and discussed by the RDC to solve potential bottlenecks. The latter could be also tasked with reporting about the aggregated status of all ITI concepts in a given region to the CCTA and informing about potential problems that were not solved at the regional level to bring them to the attention of MAS. The procedure for monitoring PA1 project is not fully specified at the moment, but it seems it could resemble the PA2 path.

The monitoring framework must be complemented by arrangements with regard to data collection and management. The modalities with regard to monitoring the implementation of single projects are a permanent fixture of the EU funds implementation framework in Bulgaria and therefore their adoption for the new programming period will not be problematic. A key challenge will be to ensure the technical possibility to monitor the implementation of the overall packages of investments. The UMIS should be adapted to reflect the specificities of integrated investments and to allow for effective monitoring of the overall implementation progress with regard to packages of urban investments under PDR MA (PA1) and ITI concepts across the contributing Programs (PA2), including also SPARD's contributions for rural municipalities. That should include tracking progress with regard to meeting target values of outcome and result indicators. Introducing this modality into the UMIS is of crucial importance to allow for:

- **tracking progress with regard to contracting of the whole package of projects by relevant MAS** (by relevant Programs) and stepping in in case delays are identified, and tracking financial and physical progress of the entire ITI concept;
- **tracking progress at the level of a relevant territory**, for instance NUTS 2, urban cluster;
- **tracking progress for relevant policy objectives;**
- **identifying underperforming projects and taking decision with regard to them** that will not put the integrated nature of an ITI concept at risk or—if it is not possible

TABLE 4.3 Proposed distribution of roles within the monitoring framework

Monitoring level	Leading body
Strategic	CCTA (supported by CCU and PDR MA)
Regional	PDR MA (supported by RDCs and municipal administration)
Single ITI concept (package of projects)	Coordination Team of the ITI Partnership, territorial branches of MRDPW + RDCs
Individual project in ITI	Respective MA

Source: Authors

- to be avoided—help decide on other measures aimed at maintaining the integrated nature of an ITI concept in case an individual project is beyond repair and fails; and
- **assessing the overall, combined impact of ITI concepts.**

The UMIS should also be adapted to allow the monitoring of the progress with regard to the absorption of:

- urban cluster budgets (PA1),
- regional financial envelopes (PA2),
- funds allocated for ITI concepts from the six contributing Programs, and
- SPARD's contribution to ITI concepts.

The financial monitoring system should be accessible to prospective beneficiaries, stakeholders, RDC Mediation Units and provide up

to date information about the progress and remaining available funding. This would provide potential applicants with up to date information and help them assess whether preparing new project proposals, which will be resource consuming, is worthwhile.

Additionally, it is recommended to regularly collect key data. This will be vital for managing the implementation process (e.g. estimating scope of required funding), tracking progress (e.g. with regard to absorption and disbursement targets) and identifying problems, risks and bottlenecks (as an element of an early warning system) prior to official submission of applications into the UMIS. Table 4.4 presents data needs that will be necessary for monitoring the progress and quality of implementation of the integrated approach at different levels.

TABLE 4.4 Proposed scope of monitoring of the implementation of the integrated approach

Level for collecting data / information	Scope of data / information
Municipal level (PA1 PDR)	<ul style="list-style-type: none"> • number of project partnerships in the making (Type 1b and 2) • estimated volume of required financing, • identification of specific problems/challenges encountered by applicants at project fiche development stage (specifically with regard to Type 1b and 2 projects), • financial corrections.
RDC (PA2 PDR)	<p>prior to submission of ITI concepts:</p> <ul style="list-style-type: none"> • number of ITI partnerships 'in the making' (supported by RDC Mediation Units), • estimated volume of required financing and sources; • identification of specific problems/challenges encountered by applicants at ITI concept development stage. <p>post-submission of ITI concepts:</p> <ul style="list-style-type: none"> • territorial distribution of ITI concepts, • types of applicants, • quality of ITI concept application and most frequently encountered errors.
MAS (including PDR MA)	<ul style="list-style-type: none"> • quality of fully developed projects applications (second stage of assessment) and most frequently identified errors, • volume of project application rejected at the second stage of assessment and main reasons, • alignment of top-down and bottom-up objectives in ITI concepts, • absorption of regional financial envelopes under respective Programs, including monitoring the demand for funding in each region and with regard to Program's specific thematic objectives, • identification of underperforming projects, financial corrections.
PDR MA (specifically)	<ul style="list-style-type: none"> • functioning of the networking principle with regard to evaluation of ITI concepts, • duration of assessment of ITI concept applications at the RDC level – on average, and in each of RDCs, • quality of assessment of ITI concept applications measured by success rate of fully developed project proposals in the second stage of evaluation, • progress with regard to contracting projects under ITI concepts across Programs and identification of delays and bottlenecks, • absorption of PDR MA regional financial envelopes and overall ten percent dedicated by contributing Programs, including monitoring the demand for funding in each region and with regard to specific thematic objectives, • progress towards dedicated 30 percent of the indicative budgets of each of the four urban clusters for Type 3 projects (PA1).

Source: Authors

Evaluation should go hand in hand with monitoring and it requires the setting a multi-annual evaluation plan to assess the effectiveness of the overall approach and its key elements. These two elements will form the basis for the evidence-based decision-making process of managing the new policy. The scope of planned evaluation studies should cover key

aspects of the implementation modalities and allow capturing the added value, the intangible results of the integrated approach. Their schedule should be planned to provide decision-makers with relevant information and recommendations at the specific decision points in the implementation cycle. Selected ideas for evaluation studies are presented in Table 4.5.

TABLE 4.5 Proposed evaluations of the integrated approach

Topic for evaluation (and type of evaluation)	Timing	Responsible body
Effectiveness of the ITI selection process (1st and 2nd stage) (on-going)	2021/2022 (depending on when the actual implementation begins, the evaluation should take place approximately one year into the process)	PDR MA with CCU
Comprehensive evaluation of the implementation framework of the integrated approach (two evaluations: ex ante + on-going)	ex ante evaluation: 2021 on-going evaluation: in parallel with mid-term review of Programs (2024/2025)	PDR MA with CCU
Performance and capacity of RDCs with respect to the fulfillment of new functions under integrated approach (mediation, ITI concept selection, awareness raising activities etc.) (on-going)	2023 It is recommended that the performance of RDCs is regularly monitored to track progress, identify potential bottlenecks and capacity shortages in order to introduce mitigating actions. This monitoring should be complemented with an evaluation study.	PDR MA
Evaluation of 'user's experience' with regard to integrated approach: compatibility with development objectives, 'user-friendliness' of the overall approach, capacity building needs of beneficiaries of projects under integrated approach (evaluation based on a selected number of ITI concepts across regions) (on-going)	2022/2023 (depending on when implementation actually begins)	PDR MA
Tangible and intangible results of integrated approach and impact for regional development (ex-post)	2027	PDR MA with participating MAS, and CCU

Source: Authors

Key messages:

A monitoring and evaluation system is indispensable for the success of the new approach. Monitoring will take place at several levels (national, regional, territorial, e.g. urban cluster, local) and in several dimensions (strategic, ITI concept, single project, policy objective, Program etc.) with regard to financial and substantive implementation of the new approach. Monitoring will engage all contributing MAS, CCU, CCTA, relevant territorial bodies (RDCs, PSUs, PSCs), territorial branches and ITI concepts partners through the Coordination Team. One of the challenges will be to ensure technical possibility to monitor the implementation of the whole packages of projects (ITI concepts). UMIS will need to be adapted to enable robust monitoring and different entities (CCTA, MAS, but also territorial branches and preferably RDCs, PSUs and PSCs) will need to be provided with access to the UMIS and trained in its use. The monitoring should work as an early warning system for the implementation of individual projects, whole ITI concepts and the whole approach. Evaluation, on the other hand, should supplement data from regular monitoring with more contextualized information that explains causes of observed developments and recommends solutions. Establishing a list of data for regular monitoring and a multi-annual evaluation program prior to the program implementation will help keep track and finetune the system.

CHAPTER 5

**COVID-19 PANDEMIC
AND ITS POTENTIAL
IMPLICATIONS FOR
REGIONAL POLICY AND
THE NEW INTEGRATED
APPROACH IN BULGARIA**

The COVID-19 pandemic has caused the deepest global recession since the second world war and 90 percent of countries will face decreases in per capita incomes, a larger impact than in any recession in the past 150 years.⁴⁹ The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020 (downside scenario 8 percent)—the deepest global recession in eight decades, despite unprecedented policy support. As outbreaks of the virus constrain private consumption and investment economic activity is expected to contract in every sub-region of the world in 2020: Central Europe by 5 percent; Western Balkans by 3.2 percent; South Caucasus by 3.1 percent; Eastern Europe by 3.6 percent; and Central Asia by 1.7 percent.

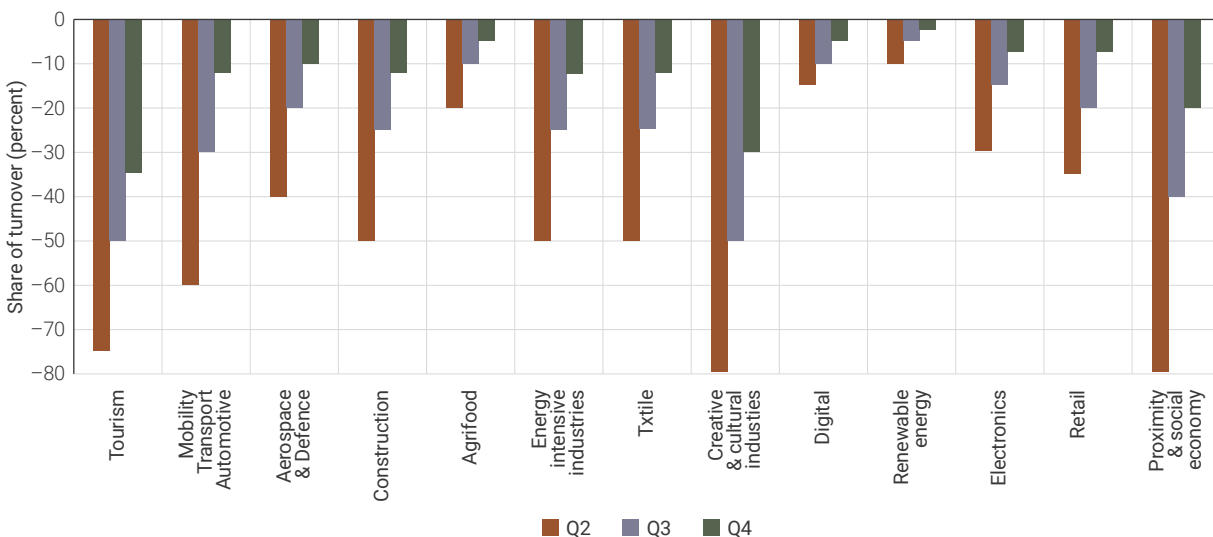
According to the Spring 2020 Economic Forecast issued by the EC in May 2020 the EU has entered the deepest economic recession in its history. The COVID-19 pandemic and its aftermath has profoundly disrupted the entire economy, affecting global demand, supply chains, labor supply, industrial output, commodity prices, foreign trade and capital flows. In an unprecedented effort EU Member States had to virtually close down their

economies overnight putting them into a state of ‘induced hibernation’, with economic activity dropping down almost instantaneously by around one third. It should be noted that the risks to forecast are estimated by the EC to be extraordinarily large, as there is a lot of uncertainty about the severity and duration of the pandemic.

Economic output is set to collapse in the first half of 2020 (EU GDP is forecast to contract by about 7.5 percent in 2020) **with most of the contraction taking place in the second quarter.** It is then expected to pick up (by 6 percent in 2021) based on the assumptions that: (i) containment measures will be lifted, (ii) the pandemic remains under control (and the second wave does not materialize), and (iii) that the policy response put in motion by each of the Member States and horizontally by the EU is effective at reducing economic impact of the crisis and successfully stimulates the recovery process.

A gradual (‘U-shaped’) recovery is expected, as observed lower employment and lower volume of investment is likely to reduce potential output, with the demand remaining

FIGURE 5.1 Current and expected drops in turnover reported by industry (share of turnover)



Source: European Commission, DG GROW survey, March and April 2020, page 37, https://ec.europa.eu/info/sites/info/files/economy-finance/assessment_of_economic_and_investment_needs.pdf

49. The list of sources providing valuable insights with regard to the implications of the COVID-19 pandemic for regional policy and the prospects of the elaboration and implementation of territorial instruments is provided in Annex 3. The inputs to this chapter are largely extracted from the World Bank global publication from June 2020.

subdued due to high uncertainty about employment, and the pandemic surging again in the coming months.

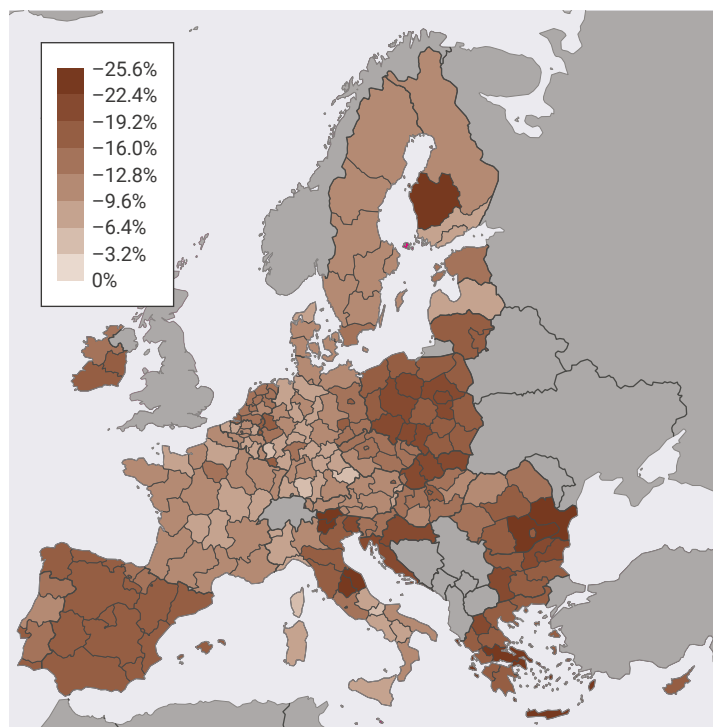
All EU Member States will suffer as a result of the pandemic but the exact scope of implications and actual impact for each of the national economies is likely to be differentiated across the EU. It will primarily depend on specific economic exposures and initial conditions, as well as the effectiveness of the policy response. A strong interconnectedness of the EU economies makes the economic effects of the pandemic potentially more ‘contagious’, as an incomplete recovery in one country may negatively impact the situation in other countries due to observed interdependencies.

The territorial impact of the pandemic is not evenly spread across the EU Member States with least resilient and still-converging Member States and regions being especially hard hit. According to the EC’s analyses the pandemic will have a considerable impact on GDP that will clearly manifest at NUTS 2 level as showed in the chart below.

According to the EC’s *Spring 2020 Economic Forecast*, **Bulgaria’s real GDP is projected to contract by over 7 percent in 2020**, largely due to the adverse impact of measures taken by the government to contain the spread of the pandemic following the declaration of a state of emergency on 13 March 2020. The sectors directly hit by these restrictive measures — retail, transport, hotels and restaurants, art and entertainment — are estimated to be operating at only 30–40 percent of their capacity, and negative spillover effects are also expected on the rest of the economy. A rebound in economic activity is expected in the second half of 2020 with the gradual lifting of the confinement measures and domestic demand is projected to strengthen already in the third quarter and should continue growing in the fourth, unless of course the country is hit by the second wave of the pandemic, which would affect these projections.

Household consumption is expected to fall by almost six percent in 2020, as it will only partially be offset by measures to protect

FIGURE 5.2 GDP impact at regional NUTS 2 level across EU Member States excluding the impact of policy measures



Source: JRC, Identifying Europe’s recovery needs, Commission Staff Working Document, SWD (2020) 98 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2020%3Ag8%3AFIN>

income and employment adopted by the Government of Bulgaria. As observed across the EU, **investment is expected to shrink by 18 percent in 2020** due to shocks negatively impacting economic standing of companies and is likely to be slow to recover (only by 1 percent in 2021). Imports are expected to contract in 2020 by more than 12 percent, mainly due to the large fall in investment and the decline in exports.

The unemployment rate has increased significantly since the COVID-19 containment measures were put in place, partly as a result of the return of workers from abroad. Job losses are most pronounced in the services sector, which accounts for 60 percent of employment in Bulgaria. The unemployment rate is expected to increase to 7 percent in 2020, which means a significant change as compared to 4.2 percent in 2019. Bulgaria has a high share of informal work (ca. 30 percent), with these workers being more vulnerable to shocks and that may have been affected by lack of opportunities for seasonal work abroad.

Bulgaria is facing the COVID-19 pandemic from a strong fiscal position (with budget surplus at 2.1 percent of GDP in 2019), and therefore has **significant room for fiscal flexibility** to introduce new measures and increase expenditures. As part of the package of containment measures the government already announced a higher spending on medical equipment, wage bonuses and increases for the medical and security staff, as well as subsidies, tax deferrals, state guarantees and a reallocation of investment funds to support the economy. Increase expenditures on unemployment and social benefits are also expected.

The COVID-19 pandemic and its aftermath have created some major new challenges, but also emphasized or revealed in full scope some already existing ones with regard to territorial disparities, that have so far been tackled with mixed success across the EU. Therefore, the initial considerations with regard to the COVID-19 implications for regional policy and territorial instruments are to some degree similar to those presented in Chapter 4, which build upon the experience with territorial instrument during the 2014–2020 programming period. But addressing the aftermath of the pandemic is not only about challenges, but also about taking advantage of opportunities it generates which may reinvigorate the regional policy agenda, promoting more resilient regions, reduction of territorial disparities, the restructuring of regional economies, and transition to a low carbon economy.

The diversified territorial impact of COVID-19 within countries is likely to exacerbate inequalities and hard-hit local economies that were focused on sectors most impacted, therefore enhancing the need for territorial investments combined with general national social protection policies to reduce the risk of increased poverty. As large cities and agglomerations have been generally most affected by the crisis, this yields the risk for funding to be channeled mostly to urban areas, leaving others behind, but also provides opportunities to drive sustainable urban development transitions to create jobs and build resilience to shocks. Certain groups may be disproportionately affected by the crisis, including women, young people, elderly, minorities and people with low education. SMEs will require substantial investments and support for digital marketing and supply. These are all sectors that may require a territorial lens, where these groups may be particularly affected given lack of capacity and flexibility to adapt to the “new normal”.

In general, climate actions, the digital strategy and EU health program should be better linked with EU cohesion policy as cross-cutting themes and effectively supported also by territorial instruments. Local and regional governments as well planning institutions/agencies at the central level should be trained how to understand and better integrate these topics into policy measures and specific investments considering the effective potential of territories.

BOX 5.1 COVID-19-related initial recommendations for regional policy and territorial instruments

1. **Building regional resilience to withstand shocks and disasters and strengthening the capacity at subnational level to recover from crises** should be a priority; some potential measures include:
 - greater national and subnational-level investment in health care and other public services (e.g. education).
 - investment in broadband networks particularly to reach underserved areas could help expand teleworking capacity of workforce, and availability of e-services, which could in turn strengthen urban-rural linkages and promote digital inclusion
 - providing affordable and accessible quality basic public services in all territories and for all people, including especially vulnerable groups
2. **Public investments can play a crucial role as a major stabilizing factor before private investment rebounds, but they need to be adequately targeted and selective, reflecting sectoral as well as territorial objectives:**
 - selection criteria should be guided by strategic regional priorities which accurately reflect the sectoral and territorial considerations

- introducing resilience-building criteria for the selection of public investment should be considered
 - investments should contribute to decarbonization of the economy
 - a sound investment mix should be promoted with sufficient attention given to 'soft' measures as an incremental part of broader investments strategies
3. **Enhanced coordination between different levels of government is a prerequisite of any effective policy response** – to maximize impact by exploiting complementarities and avoiding fragmentation and overlapping of investments, promoting better communication between government levels, and building mutual trust
 4. **E-democracy tools** (e-government, e-governance, e-deliberation, e-participation and e-voting) **should be promoted at local and regional level** to ensure continuity of work of subnational administration, but also to promote meaningful engagement of key stakeholders as well as the general public in the decision-making process, and effective communication.

CHAPTER 6

**SUMMARY
OF KEY FINDINGS
AND RECOMMENDATIONS**

This chapter provides key findings and recommendations on the current status of the design of the integrated territorial approach, and its further development. The new approach will shape the strategic and operational framework for regional development in Bulgaria during the upcoming programming period 2021–27 and will guide territorial investments that amount to around EUR 2.2 billion. Though the ongoing preparatory phase—prior to the start of the implementation of the new approach—is dynamic and on-going, the main messages presented below will remain paramount to its success. Regardless of the specific technical solutions and modalities applied, these themes provide general guidance for the consideration of the stakeholders involved.

The new approach is a commendable step towards improving the territorial dynamics of socio-economic development across Bulgarian regions with a view to addressing growing inter- and intraregional imbalances. This gradual decentralization of development policy in Bulgaria will require continuous learning, and approach adjustments, as well as sustained political commitment and support to reap its full benefits. The new approach promises high value added by i) a stronger engagement of local stakeholders in planning and implementing regional development policy, ii) more efficient use of limited resources through developing and implementing comprehensive packages of investments to generate complementarities and synergies across administrative units, and iii) making sectoral policies more territorially sensitive by mainstreaming territorial instruments and enhancing cross-sectoral coordination, while promoting key national objectives. The successful implementation of territorial instruments requires a revamped strategic, institutional and procedural framework, together with substantial capacity for the development, selection, and implementation of integrated territorial investments. The new approach is highly innovative, as the experience with integrated investments in Bulgaria has been limited so far. Hence there will be a need for close monitoring and assessment of progress to capitalize on the newly acquired experience and to further fine-tune implementation modalities.

The GOB is planning to channel significant financial resources into the integrated territorial approach to achieve a critical mass of investments to drive territorial development. The novelty of the approach is that a large part of these interventions should cover various sectors (thematic integration encompassing top-down and bottom-up development objectives), be implemented by partnerships (partnership principle) of stakeholders sometimes spanning more than a single municipality, and respond to the specific needs of a targeted territory (territorial dimension). However, as the analyses of regional needs show, Bulgarian regions are still dealing with a substantial infrastructure gap that negatively impacts their development potential. These needs could potentially be more effectively addressed by stand-alone, non-integrated (sectoral) investments. The PDR 2021–27 will not offer such stand-alone funding opportunities with the exception of limited resources devoted to PA1 Type 1a projects, that will be available to the ten largest urban centers. This potential mismatch between investment needs and available support measures may limit the overall development impact of regional investments during the next programming period if not giving due consideration.

Rural and urban municipalities will be able to collaborate within ITI concepts that could pave the way for impactful integrated interventions. The new integrated approach primarily concentrates on 50 urban municipalities eligible under PDR, but it also now, in its latest iteration, provides development opportunities to rural municipalities. Urban centers are usually growth engines of territories and it is important they have sufficient resources to develop. Indeed, they will be able to take full advantage of the new approach. It is positive development that rural municipalities will be able to participate in ITI concepts to the extent covered by SPARD, the six contributing Programs and PDR's PA1 and PA2. They require sufficient investment opportunities and the ability to join forces with urban municipalities to reach their development objectives. This is vital in light of the urban-rural divide observed in Bulgaria and the fact that the most deprived, least developed parts of the country are primarily located in rural municipalities.

A key success factor of the new integrated approach is building sufficient capacity of stakeholders at local, regional, and central level to develop and implement territorial instruments. The institutional capacity of MAS and RDCs is critical for the implementation of the reform and both require strengthening. Since the new approach significantly differs from the previous model of implementing regional policy, and new more advanced instruments (integrated projects) and new actors (revamped RDCs) are envisaged, MAS and RDCs will need to adjust their standard operating procedures. In fact, RDCs will have a completely new set of functions that they have never had before. Similarly, the contributing MAS will need to adjust their procedures under the new approach. Not only will they share responsibility for joint preparation of user-friendly guidance and manuals for prospective applicants, they will also participate in a two-stage evaluation and selection of integrated project in collaboration with subnational entities. MAS and RDCs therefore will need to more closely collaborate, in almost every aspect of the implementation cycle. These new elements will lead to complexity of the system for implementing the integrated approach, which twofold objective will be to ensure specific territorial impact via integrated projects and satisfactory disbursement of EU funds. Functioning in this more intricate institutional environment will require stronger institutional capacity and sustained involvement of all engaged entities.

Transparent procedures and mechanisms minimizing potential conflict of interest will need to be embedded in the new implementation framework. Delegation of tasks to regional and municipal level (RDCs, PSUS, PSCs) will certainly build regional and municipal capacity and contribute to their enhanced ability to program and implement development policy. However, it also provides the potential for conflict of interest, since representatives of municipal administrations will on the one hand be project applicants and potential beneficiaries, and on the other hand they will support beneficiaries in preparation of applications (RDCs' Mediation Units) and evaluate submitted project proposals (RDCs, PSCs). Clear separation of these tasks, merit-based objective selection criteria, transparent procedures, existence of a grievance or complaints

redress mechanism, and proper supervision are imperative to mitigate these risks around conflict of interest.

It is recommended that an intensive and sustained capacity building program and advisory support mechanism for prospective applicants is established early on to facilitate the development of impactful, high quality and viable project proposals. The new approach will offer beneficiaries more opportunities to address development bottlenecks, but at the same time, it will place more responsibilities on them compared to the previous programming period. Moreover, given that many elements of the new integrated approach will be new to beneficiaries, it would be advisable for MAS to frontload capacity building activities for prospective beneficiaries to enable their early participation in the Programs. The prospective applicants, for instance, will need to be able to conceptualize more comprehensive cross-sectorial interventions and plan their implementation side by side with project partners under the auspices of mandatory partnerships. The applicants will also need to be well versed in implementation procedures of different Programs, since individual projects from packages will be financed from different sectoral Programs. Establishing the Advisory Hub for Municipalities as a provider of professional, centralized and standardized support and technical assistance is recommended.

It is also recommended that the GOB establish an effective mechanism for coordinating MAS' work, with strong political leadership and a robust M&E system. MAS' seamless collaboration will be an important factor enabling the integrated approach, since beneficiaries will implement projects combining funding from different MAS and contributing to the achievement of indicators from different Programs. This implies the MAS will: regularly communicate and exchange data to be able to monitor progress of the integrated projects; identify bottlenecks to fund absorption and disbursement; 'isolate' the contribution to their individual Programs; and flexibly react to changing circumstances to ensure achievement of each Programs' substantive and financial goals, and sound implementation of the integrated approach as a whole. MAS will also need to create clear

demarcation lines between their Programs and other instruments to avoid redundancies and support complementarities and synergies. They will need to put in place transparent evaluation criteria allowing the selection of the most impactful integrated projects developed by viable and capable partnerships. To accomplish these, the current coordination mechanisms needs to be adjusted to reflect the specific characteristics of the integrated approach. To this end, this report recommends formation of a Coordination Council for the Territorial Approach, with the CCU and MA PDR acting as the chair and secretariat, respectively. The CCTA would help synchronize the work of the participating MAS, and be the platform for regular communication, identification of emerging problems and shortcomings of the system, and proposing remedy actions. Additionally, the information system for managing EU funds (UMIS) will need to be adapted to allow the monitoring of not only individual projects, but also integrated packages of projects.

The success of the new integrated approach will depend greatly on the effectiveness of the entire delivery mechanism. All its constituting elements must be well-designed, and

work seamlessly throughout the whole policy cycle to support the elaboration and selection of high-quality integrated projects and their successful implementation and long-term sustainability. The failure to adequately prepare for any parts of the system may result in unsatisfactory results that could undermine the potential of the new integrated approach to generate desired development outcomes.

Despite the identified challenges and demanding nature of the policy shift, the benefits of the new approach have the potential to achieve tangible development outcomes. The new integrated approach, if well-implemented, has the potential to build and strengthen trust between stakeholders, to promote sustainable cross-sectoral and interjurisdictional cooperation, to create a sense of shared ownership and responsibility for joint development undertakings at the local and regional level. This, in turn, could reinvigorate the entire regional policy agenda and significantly improve its impact on the socio-economic situation across regions in the longer term. Achieving these highly favorable outcomes will require significant efforts and that all key elements of the implementation mechanism be diligently managed by the relevant decisionmakers.

ANNEX 1

EU FRAMEWORK FOR SUPPORTING TERRITORIAL INSTRUMENTS 2021–27

This chapter presents lessons learned about the implementation of territorial instruments during the 2014–20 period and a new regulatory framework for their implementation during 2021–27.

2014–2020 EU programming perspective marked the inclusion of territorial instruments into the mainstream of EU development policy and the 2021–27 perspective reinforces this direction. Territorial instruments became an obligatory and prominent part of investments supported by EU Cohesion funds. It was preceded by the introduction of territorial cohesion as one of the fundamental aims of the European Union in the Lisbon Treaty of 2007, which was followed by a major debate on reforming Cohesion policy heavily influenced by the 2009 Barca report⁵⁰ and the World Bank’s World Development Report 2009.⁵¹ Both these reports recommended introducing a more place-based approach to sectoral policies, which were perceived as too ‘spatially-blind’, horizontal and standardized. Stronger focus on specific territory were to make these policies more impactful and capable of making a lasting positive difference for the development prospects.

The aim of the ‘territorialization’ of development policy instruments is to promote inclusive and sustainable growth of territories by tailored interventions that strengthen their individual endogenous potential and help solve challenges in their individual context. This marks a shift towards a policy response

that is more sensitive and responsive to individual characteristics of territories and away from a one-size-fits-all approach.

The integrated approach is also to stimulate more flexible and innovative policy governance approaches, and capacity building of broader range of involved stakeholders. Integrated instruments were to encourage multi-level governance, involve broader groups of stakeholders into planning, implementation and monitoring of territorial development instruments, and facilitate creation of new functionally based partnerships.

Lessons learned from the application of territorial instruments across EU Member States during the 2014–2020 programming period

During the 2014–2020 programming period the integrated territorial approach was implemented in the EU member states mainly via two instruments: Integrated Territorial Investments (ITI) for urban areas and Community-led Local Development (CLLD) for rural areas⁵². In that period, the Member States were obliged to invest five percent of their funding from European Regional Development Fund (ERDF) calculated at Member State level into integrated and sustainable

50. *An agenda for a reformed Cohesion Policy. A place-based approach to meeting European Union challenges and expectations*, Barca F., 2009.

51. *World Development Report: reshaping economic geography*, The World Bank, 2009.

52. CLLD based on experience from the EU rural development policy; this approach has been successful applied since 1991 as LEADER program. The LEADER program (an acronym in French—Liaison entre actions de développement de l’économie rurale—meaning Links between actions for the development of the rural economy) is an EU initiative to support rural development projects initiated at the local level in order to revitalize rural areas and create jobs.

urban development (SUD)⁵³ to strengthen the development potential of urban areas as key drivers of growth across the EU. The aim was to increase resilience of urban areas against challenges they face (climate change and environmental risks, demography, social and economic inequalities etc.). To enhance the territorial dimension and give local actors more leverage, the cities and other sub-regional bodies were to be entrusted with the task of project selection.

The most prominent example of the new territorial approach embraced by the EU Cohesion policy was the instrument called Integrated Territorial Investment. ITI was designed to link thematic development objectives with a specific territorial dimension. For instance combining soft and hard measures to a greater degree than before, combining investments from different sectors, such as education, transport, energy efficiency. EU required three elements to allow tapping into funds dedicated to ITIs: i) an integrated territorial development strategy for a designated territory, ii) a package of actions or investments supported by funding from at least two different EU priority axes or operational programs to ensure integrated, cross-sectoral approach and iii) adequate governance arrangements to effectively manage ITI implementation. In principle, ITIs can be considered a template for a territorial instrument, thus reviewing the experience with their implementation offers an opportunity to analyze the added value, key challenges and bottlenecks of this approach.

20 EU Member States applied ITIs during the 2014–2020 period, Bulgaria (and the remaining countries) chose different delivery mechanisms for SUD. Moreover, the implementation of ITIs varied among the member states. The analysis of selected cases of the ITI implementation offers relevant insights that could be useful for the Government of Bulgaria (GOB) in its further conceptualization of the new territorial approach that will be

implemented under the Operational Program Development of the Regions 2021–2027 (OPDR 2021–2027). The review of experiences underlines added value of the integrated approach and the key challenges with its implementation that are divided into capacity, regulatory and governance aspects⁵⁴.

Added value of ITIs

ITIs were to promote cross-sectoral, multi-faceted, and integrated packages of interventions (projects) that would be tailored to the socio-economic and spatial characteristics of specific territories. Integrated planning and investments, in turn, were to unlock and strengthen development potentials of different urban territories, initiating more promising growth trajectories. The Commission expected ITIs to encourage the integrated use of available funding and thus overcome sectoral confines, which have limited the territorial impact of interventions so far. ITIs were also perceived as a useful tool for mobilizing local stakeholders, building their administrative capacity and networking by engaging them in the process of elaborating territorial strategies and implementing integrated investments. Last but not least, it was expected that ITIs would be a flexible tool for integrating different funding streams to simplify the implementation modalities and increase their overall development impact on selected territories (Box A1.1).

The introduction of ITIs helped strengthen the strategic framework for implementing territorially impactful interventions and catalyzed institutional changes in entities responsible for planning and implementation of regional/local development policies. ITIs contributed to building administrative capacity of participating local actors and encouraged novel configurations both territory- and stakeholder-wise. The selected key lessons learned include:

53. Total allocation for SUD for 2014–2020 eventually amounted to EUR 14.5 billion (7.8% of ERDF), surpassing the required 5% by more than 50%, with half of Member States allocating much more than 5% of ERDF to this end. Sources allocated to ITIs represent half of the total dedicated allocation.

54. The list of sources providing valuable insights with regard to the experience with implementing ITIs across EU Member States and which were reviewed by the Bank team for the purposes of this subchapter is provided in Annex 1.

BOX A1.1 Expected added value of ITIs

- **Strategic dimension** (integrated strategies for territorial development): strengthening synergies between different strategic frameworks by bringing together investment priorities and developing a comprehensive, multi-sectoral strategy for a given territory
- **Financing dimension** (operational programs): combining different funding streams to create critical mass and facilitate coordinated investment in territories
- **Territorial dimension** (NUTS 2 regions): strengthening focus on functional areas to ensure tailored, place-based policy responses for a given territory
- **Operational dimension** (ITI beneficiaries): enabling the elaboration and implementation of more complex and tailored sets of integrated projects through the multi-fund approach and thanks to enhanced administrative capacity
- **Intangibles** (culture of cooperation): build mutual trust, sustainable cross-sectoral and interjurisdictional cooperation, create a sense of shared ownership and responsibility for joint development efforts at the regional level.

Source: Authors

- Introduction of integrated governance arrangements has been conducive to reducing the 'silo-like' character of sectoral policies and promoting enhanced cooperation and better coordination at central, regional, and local level.
- The ITI approach has the potential to stimulate a change of culture in territorial planning, build mutual trust between stakeholders, show benefits of continued cooperation as a way to create critical mass needed to overcome development challenges, and maximize growth potential of a given territory.
- The partnership principle of territorial instruments has the potential for mobilizing partners in three dimensions: horizontal (different types of partners from the same territory), vertical (partners from different levels of government); and territorial (partners from across different territories).
- Thanks to the early engagement of the public (and other key stakeholders) in the process of developing a territorial strategy and attractive incentives the ITIs could induce stronger ownership of and shared responsibility for development goals and investments among local stakeholders.

Challenges of the ITI approach

The experience with implementing ITIs points out three areas that demand special attention if ITIs are to be successfully completed, they refer to capacity of stakeholders, regulatory framework and governance mechanisms. ITIs by their nature are more

complex to plan and implement than single sector, 'regular' projects. That is because they require more coordination of various activities, combining knowledge from different sectors, fulfilling requirements of different funding envelopes, and involving broader spectrum of stakeholders etc. The key challenges related to ITIs' implementation are following:

Capacity challenges

Planning and implementation of integrated investments requires higher capacity from stakeholders than in 'regular' projects. The capacity relates to:

- understanding a more complex integrated approach and learning how to use it to solve one's developmental problems,
- preparing, in a limited timeframe, high-quality territorial and local strategies that meet EU's prerequisites and underpin integrated territorial investments,
- technical knowledge and the ability to plan at a bigger scale and properly stage the process
- financial capacity to hire adequate human resources and prepare bigger and/or more complex technical documentation, and also to hire external experts to help fill in knowledge gaps,
- the ability to engage a bigger and more diverse group of actors (partners), and manage the long-term, cooperative and multi-stakeholder ITI implementation,
- the ability to coordinate and oversee parallel activities, often in different sectors,
- manage financial resources and settle accounts.

Higher capacity is required not only from beneficiaries that are to implement ITIs,

but also from MAs and other entities that need to be able to assess ITI application, monitor their implementation and match specific results to specific programs (indicators).

Key regulatory challenges

ITIs are more complex than individual sectoral projects and require proper regulatory framework to thrive. A regulatory environment that establishes effective and efficient procedures that guide work of MAs and beneficiaries is key to the success of the integrated approach. Selected challenges in this field are following:

- complexity of ITIs, due to the necessity of following different sets of implementation rules that are applicable to different funding sources, e.g. ERDF and ESF, or different OPs,
- limiting nature of requirements with regard to thematic concentration; more flexibility would facilitate stakeholders' creativity in addressing specific needs of territories,
- lack of sufficiently clear guidelines coupled with the limited administrative capacity of stakeholders required issuing additional guidance with regard to rules and regulations for institutions involved in the management of ITIs, as well as for implementing beneficiaries—that delayed the contracting and disbursement of funds,
- difficulties in effectively reconciling national sectoral planning frameworks with the territorial dimension.

Key governance challenges

Integrated investments could stimulate new interactions between stakeholders and contribute to denser networking across territories and levels of governance. However, the management of integrated investments, which by nature involve a bigger number of actors, also poses challenges, such as:

- the need to strengthen horizontal and vertical coordination, providing an opportunity to connect local, regional and national levels in policymaking to effectively plan and implement investments,
- complicated decision-making process, with multiple stages of project assessment and approval proved to be time-consuming and

confusing for applicants, beneficiaries and managing authorities. This had the potential to generate tensions between stakeholders at different levels of the implementation framework, resulting in further delays. The complexity of the selection process often surpassed that associated with other ESIF operations, involving different stakeholders (MAs, Intermediate Bodies, local stakeholders etc.).

- putting in place an effective coordination mechanism between MAs to support multi-fund territorial instruments to ensure a streamlined implementation process proved to be a difficult task. It requires good, frequent and regular communication and cooperation between different levels and different policy areas at the design stage and throughout the entire process of ITI implementation.

Supporting territorial instruments in 2021 – 2027 programming period: Policy Objective 5 “A Europe closer to citizens” and the legal framework

The EU intensifies utilization of the territorial integrated approach during 2021 – 27 period. A dedicated territorial policy objective ‘A Europe closer to citizens’ was included in the set of five consolidated overarching EU development objectives for 2021–2027 to further highlight the need for more territorially impactful development interventions (Box A1.2). These policy objectives will guide investments during the oncoming financial perspective.

BOX A1.2 EU policy objectives for 2021 – 2027

1. A smarter Europe (innovative & smart economic transformation)
2. A greener, low-carbon Europe (including energy transition, the circular economy, climate adaptation and risk management)
3. A more connected Europe (mobility and ICT connectivity)
4. A more social Europe (European Pillar of Social Rights)
5. A Europe closer to citizens (sustainable development of all types of territories).

Source: Draft CPR 2021 – 2027

Additionally, **two horizontal objectives** were defined to underline the importance of **administrative capacity building and cooperation between regions and across borders**.

The ITI approach and CLLD instrument have been streamlined and simplified. The goal is to allow more flexibility for Member States to design and apply their own tailor-made delivery mechanism suited to the specific needs of targeted territories⁵⁵. A new instrument, the so-called ‘another territorial tool’, will be available to the member states. All instruments supporting territorial approach under policy objective 5 are supposed to share several common characteristics.

BOX A1.3 Key characteristic of the integrated territorial approach for 2021 – 2027

EU expects that integrated investment in 2021 – 27 perspective will have following features:

- multi-sectoral,
- multi-level governance,
- multi-stakeholder

They also should target different types of territories and go beyond traditional administrative borders, for instance functional areas, sub-regional units, local communities.

Territorial instruments: legal framework for 2021 – 2027

Three documents set out legal provisions with regard to territorial instruments. The Common Provisions Regulation (CPR) defines the EU horizontal policy objectives (Art. 4) and describes tools and requirements for integrated territorial development (Chapter 2—Art. 22–28). The Fund-specific Regulations (ERDF/CF, ETC, ESF+, EMFF) define the scope and specific objectives, as well as requirements with regard to thematic concentration and other fund-specific focus areas (e.g. urban earmarking for ERDF). The Second Pillar of Common Agricultural Policy (European Agricultural Fund for Rural Development, EAFRD) provides a common set of rules for CLLD⁵⁶.

Full compliance with requirements stipulated in the CPR is a prerequisite for providing funding to integrated territorial investments under the 2021 – 2027 operational programs. The CPR draft modification in May 2020 that adjusts the policy framework due to the COVID-19 pandemic, did not change the legal provisions regarding territorial instruments.

CPR formulates a common approach to all territorial tools and defines a minimum set of requirements for territorial strategies⁵⁷. Three forms of support for integrated territorial and local development are made available to the member states:

- **integrated territorial investment (ITI)**, when a territorial strategy receives funding from multiple priorities, programs, funds or POS
- **CLLD**, when a local strategy is designed and implemented using an exclusively bottom-up approach, and
- **another territorial tool** supports integrated initiatives designed by the Member State for investments programmed for the ERDF under the policy objective 5.

Preparation of territorial and local development strategies is a prerequisite for accessing EU funds devoted to territorial instruments. The CPR prescribes some technical and procedural aspects concerning these strategies with regard to i) their contents, ii) their ownership by relevant territorial authorities/bodies, and iii) involvement of relevant territorial authorities/bodies in selecting investments compliant with these integrated territorial strategies.

The territorial approach must fulfil two minimum requirements to use EU funds. Investments must be based on integrated territorial or local development strategies (multi-sectoral, multi-stakeholder, optionally multi-territorial) and a relevant local or territorial body shall select or shall be involved

55. SIMPLIFICATION HANDBOOK. 80 simplification measures in cohesion policy 2021–2027, European Commission—Directorate-General for Regional and Urban Policy https://ec.europa.eu/regional_policy/sources/docgener/factsheet/new_cp/simplification_handbook_en.pdf

56. As it is not envisaged by MRDPW to include CLLD as one of the delivery mechanisms under OPDR 2021–2027 specific regulations regarding CLLD will not be reviewed in this report.

57. Chapter 2, Art. 22–28.

in the selection of operations (multi-level, optionally community-led).

MAs are obliged to accurately identify operations, outputs and results contributing to an ITI through an electronic system.

Territorial instruments are also to be applied to deliver sustainable urban development during 2021–27. The member states need to earmark at least six percent of their ERDF resources to finance CLLDs, ITIs or other territorial tools under the PO5 in this area, that is one percentage point increase from the 2014–20 period. Additionally, the territorial tools used under PO5 can combine different investments and activities financed under all other policy objectives (see points 1–4 in Box A1.2)—enabling a multi-sectoral and integrated approach tailored to the specific territorial context.

List of sources providing insights with regard to the experience with implementing ITIs across EU Member States

1. *Integrated territorial development: new instruments — new results?* Martin Ferry, Stefan Kah and John Bachtler, IQ-Net Thematic Paper 42(2), June 2018, European Policies Research Center Delft
<https://pureportal.strath.ac.uk/en/publications/integrated-territorial-development-new-instruments-new-results>
2. *Integrated territorial and urban strategies: how are ESIF adding value in 2014–2020?* Final Report, Arno van der Zwet — European Policies Research Centre, John Bachtler — European Policies Research Centre, Martin Ferry — European Policies Research Centre, Irene McMaster — European Policies Research Centre, Stephen Miller — European Policies Research Centre, December 2017
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ANNEX 2

LESSONS LEARNED FROM THE APPLICATION OF TERRITORIAL INSTRUMENTS IN BULGARIA AND SELECTED EU COUNTRIES

Bulgarian experience with integrated territorial instruments

The Bulgarian experience with integrated territorial investments is limited and it pertains to three modalities. First, it is collaboration in managing solid waste by groups of municipalities, second, the CLLD approach, already signaled in previous chapters, and third cross-border cooperation projects:

Implementation of waste management projects

Waste management is organized on a regional basis and is regulated by the Waste Management Act (WMA). The law defines the principles and method of organization of the waste management in the country. The territory of the country is divided into regions and covers all municipalities. Waste management regions are functional. The leading criterion for their determination is the distance between the waste generating site and the regional landfill and other waste treatment facilities.

Each mayor is responsible for organizing the process of collecting, transporting and treating the waste generated on the territory of the respective municipality. The law provides for the municipalities in one region to establish a regional waste management system. The municipalities must establish a Regional Waste Management Association (RWMA). At the same time, the legislation sets deadlines for meeting regional targets for reducing the amount of landfilled waste.

During the 2007–2013 programming period, Operational Programme “Environment” invested mainly in the establishment of regional waste management systems to fulfill the commitments in this sector made during the country’s accession to the EU. The principles of partner projects financing have continued to be respected throughout the 2014–20 programming period.

Grant funding is awarded through direct award procedures addressed to one or to several regions at the same time, depending on their project readiness. All municipalities in a given region are invited to participate in the selection process.

Signing of a Partnership Agreement by all municipalities in the region is a prerequisite for submitting a project proposal for assessment. The grant contract is signed by the MA of the programme and by the beneficiary (Lead Partner) and the rest of municipalities as partners. The fact all members of the Association jointly sign the grant contract creates conditions for sustainability of the project and commitment by all to its implementation.

The partnership agreement covers rights and obligations of the parties in relation to the entire project cycle—preparation, assessment, implementation and operation of the assets. In regard the project preparation phases the municipal members of the regional association decide among themselves which municipality will be Lead Partner or beneficiary. The Lead Partner communicates with the MA on behalf of all members. They are obliged to assist the process of project preparation and evaluation. In regard the project implementation phases the partnership

agreement laid down the provisions about (1) financial contribution by each member, (2) financial flows related to advance, interim and final payments under the project between partners, and (3) public procurement responsibilities.

The Partnership Agreement also covers other issues such as project implementation reporting, project rules and publicity obligations, etc. The Agreement is the main document regulating the relations between the partners, and between all of them and the MA throughout the entire term of project implementation. In the case of infrastructure measures this can be more than 5 years.

Community-led local development

The CLLD in Bulgaria during the current programming period is implemented as a multi-funded and as a single-funded approach. This section offers information about the former one, because it used a similar model as is intended under the integrated approach.

Five operational programs participate in the CLLD. These are the Rural Development Program, OP Human Resources Development, OP Environment, OP Innovation and Competitiveness, OP Science and Education for Smart Growth.

The rules for coordination between MAs of OP and Local Action Groups (LAGs) related to the implementation of the CLLD are laid down in a special decree of the Council of Ministers (COM Decree 161/2016). The Decree regulates the coordination of the development, selection and implementation of CLLD strategies and projects supported by more than one European Structural and Investment Fund (ESIF).

The coordination mechanism, outlined in the COM's decree, includes the designation the RDP MA as a responsible managing

authority for the implementation of the CLLD, as well as the establishment of a CLLD Coordination Committee. The members of the Coordination Committee are representatives of all programs involved in the implementation of the CLLD, other authorities and bodies that have responsibilities for agriculture, social and regional policies, including RDCs in Level 2 regions.

The RDP MA supported establishment of LAGs through technical assistance. This helped the local communities organize themselves, develop skills and knowledge for preparation of CLLD strategies—the framework document guided the investments. The period for establishment of LAGs and preparing the strategies took up to two years.

MAs and LAGs sign an agreement for implementation. MAs of the programs prepare guidelines for the assessment of projects submitted under CLLD strategies. The guidelines include requirements for applicants and projects to be funded under the relevant programs within the strategies and conditions for project implementation.

Monitoring for the implementation of the CLLD strategies is carried out by the MA of the Lead Fund and the LAG. The RDP MA draws up reports on the implementation of the CLLD strategies at the end of every six months and submits them to the Coordination Council for the management of the European Union funds and to the monitoring committees of the programs involved in the financing of the strategies.

The implementation of individual projects within the CLLD strategies is carried out in compliance with the requirements of each program. Reporting, verification and monitoring of the projects on the CLLD strategies are implemented in the UMIS. The implementation of a project in the framework of a CLLD strategy is monitored by the LAG, as well as by the bodies responsible for the management and control of the respective operational program.

ANNEX 3

LIST OF SOURCES PROVIDING INSIGHTS WITH REGARD TO THE COVID-19 IMPLICATIONS FOR REGIONAL POLICY AND THE ELABORATION AND IMPLEMENTATION OF TERRITORIAL INSTRUMENTS

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