ANALYSING THE FINANCIAL VARIABLES OF BULGARIAN MUNICIPALITIES FOR THE PURPOSE OF THEIR FINANCIAL RECOVERY

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Abstract: Some of the latest supplements to the Public Finance Act deal with the local management of public funds and activities and prescribe a procedure for identifying municipalities in a financial difficulty and adopting measures to overcome it. This paper presents a set of methods for analysing the financial variables of individual municipalities on the basis of the methodological guidelines and the information provided by the Ministry of Finance. We have analysed data available as of the end of 2015 about the financial variables of Bulgarian municipalities as they have been defined by legislation and identified some common problems related to the financial management of that segment of the public sector.

Key words: public sector, financial situation, analysis.
JEL: H72, R13.

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Introduction

The management of public finance by Bulgarian municipalities, related problems and available opportunities for overcoming them is a key issue not only for budget spending units at a local level, but also for local communities in general. The ***object*** of this research is municipalities in Bulgaria, while the ***subject*** is their financial situation approached in terms of the opportunities for their financial recovery. The ***aim*** is to design a set of methods for analysing the major financial variables of municipalities and to identify current financial problems related to their management. To accomplish this, we have defined the following ***tasks***:

1) Reviewing the criteria set in the methodology prescribed by the Ministry of Finance for identifying municipalities in financial difficulty.

2) Designing a set of methods to analyse the financial variables of municipalities for the purpose of their financial recovery.

3) Conducting a situation analysis of the financial variables of municipalities according to defined criteria.

4) Identifying the financial problems which are most common to municipalities in Bulgaria.

The research is based on the data which was officially published by the Ministry of Finance (MF) about the financial situation of municipalities in Bulgaria as of 31st December 2015.

1. Methodology for Assessing the Financial Situation of Bulgarian Municipalities for the Purpose of Their Financial Recovery

The management of public funds has always been a major topic due to its economic and social importance for protecting the financial interests of the public. The contemporary economic environment and the wide range of fiscal rules to be met pose a number of challenges to public sector entities whose task is to ensure long-term financial stability and sustainability of public funds. To accomplish their specific goals in compliance with the general objectives of the government policy, public sector entities need to run their activities precisely and to manage available resources efficiently. Hence the need to design and adopt adequate and efficient mechanisms to ensure the achievement of desired results.

The Public Finance Act (PFA) is the law which governs the budgeting process and the budgetary framework at a national level, as well as the general scheme and structure of public finance (The Public Finance Act, 2016, Art. 1, Para 1). Our analysis of the implementation of municipal budgets helped us identify a number of problems and further supported the idea that municipalities need to align their budgetary situation to the fiscal rules which are applicable to them under the PFA (Motives to the Bill for amending and supplementing the Public Finance Act).

Within the context of that need, some of the latest supplements to the PFA focus on public resources management at a local level. A procedure for identifying municipalities in financial difficulty has also been prescribed. A set of criteria has been defined which need to be monitored for each municipality so as to determine whether the municipality is in financial difficulty (The Public Finance Act, 2016, Art. 130a). For municipalities in financial difficulty, the PFA prescribes a series of actions for overcoming that difficulty. The Act also provides for initiating a financial recovery procedure and designing and implementing adequate measures to ensure the financial stability and sustainability of municipalities (The Public Finance Act, 2016, Art. 130b-130l). Our analysis is based on the ***criteria for identifying municipalities in financial difficulty*** as they have been prescribed by relevant legislation and methodology (The Public Finance Act, 2016, Art. 130a; Guidelines on Applying Art. 130a, Para. 1 of the Public Finance Act.):

Criterion 1. Failure to comply with the fiscal rules set in Art. 32, Paragraphs 1 and 2, namely:

- The annual amount of municipal debt payments shall not exceed 15 % of the average annual amount of own revenue and the general balancing subsidy over the last three years, according to the data presented in the annual reports on the implementation of the municipal budget;
- The nominal value of municipal guarantees issued during the current budget year shall not exceed 5 % of total revenue and the general balancing subsidy specified in the latest annual report on the implementation of the municipal budget;

Criterion 2. The liabilities existing at the end of the year on municipal budget expenditure exceed 15 % of the average annual amount of the expenditure reported over the last four years;

Criterion 3. The assumed commitments for municipal budget expenditure at the end of the year exceed 50 % of the average annual amount of the expenditure reported over the last four years;

Criterion 4. Outstanding liabilities under the municipal budget exceed 5 % of the expenditure reported by the municipality for the last year;

Criterion 5. The balance of the municipal budget over the last three years has been a negative value in each of those three years;

Criterion 6. The average tax collection rate for property tax and vehicle tax is below the average collection rate reported by all other municipalities in the last year.

The primary objective of supervision as a function of the management process is to register any deviations from the framework which has been set and to establish the rules for regulation and compliance with that framework. Regular monitoring and comparison of the standard parameters to the values reported by municipalities is part of the management and control of municipal finance. Hence, the monitoring which the Ministry of Finance and budget spending units (The Public Finance Act, 2016, Art. 130b, Para. 1; Art. 130d, Para. 1) themselves exercise over that aspect of public finance management is a prerequisite for improving the current condition of municipalities and for equipping them with better opportunities to rationally manage their resources and to exploit them to the benefit of the public. Therefore, a procedure employed to prove that a municipality is in financial difficulty and needs a financial recovery plan and the adoption of the measures required in that case might be defined as an instrument for improving the efficiency of the local management of public funds.

2. Methods for Analysing the Financial Variables of Municipalities for the Purpose of Their Financial Recovery

The design of adequate financial recovery plans for municipalities should be based on the analysis of their financial variables according to the criteria set in the PFA so as to identify the reasons for any deviations from prescribed financial parameters. The aim is to improve the financial position of municipalities in the long run by planning and implementing specific financial recovery measures in terms of optimizing the management of budget revenue and expenditure. In our opinion, an assessment of the financial position of a municipality should comprise the following **major stages**:

Stage 1. Calculating the values of financial variables and any deviations from the standard margins

At this early stage of the analysis it is necessary to calculate a set of variables in compliance with the criteria set in the PFA, so that the interpretation of these variables will help determine whether a municipality is in financial difficulty. It is then necessary to identify the degree of deviation from the standard margins. When the values of certain variables approximate marginal values, it is necessary to identify the risk of deviation for those variables over the next reporting periods.

Stage 2. Identifying the criteria according to which a municipality may be defined as being in financial difficulty

This relates to determining the number and type of criteria to be applied for identifying a municipality as requiring the design and implementation of a financial recovery plan.

Stage 3. Analysing the reasons for registered deviations

At this stage, it is necessary to conduct a factor analysis of the dynamics of financial variables so as to identify the specific reasons for established deviations from standard margins. To this purpose, data from the annual financial statements of municipalities is to be employed, namely, the balance sheets, the reports on the implementation of budget revenue and expenditure and the cash flow statements. Depending on the deviations which have been established, changes in the following ***major variables and structural ratios*** need to be traced back:

- *Revenue generated per municipality resident,* i.e. identify the extent to which the dynamics of that revenue is due to changes in own revenue and central government transfers;
- *Number of population per municipal official*, i.e. compare the value of the variable to the average values for the country and analyse the reasons behind that dynamics;
- *Structure of municipality budget revenue*, i.e. track the relative share of own revenue, central government transfers, interest-free loans, other types of funding, transitional residuals. The degree to which a municipality depends financially on central government transfers is studied and its capacity to generate revenue is assessed;
- *Structure of the own revenue of a municipality*, i.e. calculate the relative share of local taxes, local fees and other non-tax revenue. Conduct an intragroup structural analysis. Establish the degree to which the dynamics of own revenue depends on the individual types and groups of municipal revenue;

- *Implementation of the own revenue plan*, i.e. compare planned and reported revenue values (by types and groups) and assess the feasibility of revenue planning;
- *Structure of expenditure by economic elements*, i.e. track the values and dynamics of the relative share of expenditure on salaries and social security contributions, other current expenditure and capital expenditure;
- *Implementation of the expenditure plan*, i.e. conduct a comparative analysis of planned and reported expenditure values – by types and groups;
- *Amount of arrears*, i.e. study the dynamics of arrears over the analysed period and establish their relative share by sources of liabilities;
- *Share of local activities expenditures covered with own revenue*, i.e. study the degree to which this type of expenditure has been covered with own revenue and establish the degree to which the dynamics in the variable is due to changes in constituent expenditure and revenue;
- *Budget balance compared to total revenue*, i.e. the difference between the sum of total revenue and expenditure is compared to the sum of total revenue (the sum of own revenue and budgetary relations – subsidies, transfers, interest-free loans). The dynamics in the changes of the variable is studied and underlying reasons are identified;
- *Collection rate of property tax and vehicle tax*, i.e. calculate the average collection rates for both taxes and analyse the underlying reasons for the identified dynamics.

This is not an exhaustive list of all variables and structure ratios which need to be studied to establish the financial situation of a municipality for the purpose of its financial recovery. In each particular situation, when analysing the reasons behind the dynamics of financial variables, a further study of the specific factors affecting their ultimate values is necessary so as to identify the reasons for any registered deviations.

Stage 4. Summary of analysis findings and making management decisions

The summary of analysis findings renders it possible ***to make sound and constructive management decisions at a local level,*** such as:

First. Identify specific problem areas in which financial difficulty has been established and available opportunities for exercising an impact on those problem areas.

Second. Identify the major financial variables whose values and dynamics need to be monitored and analysed at shorter intervals (monthly and quarterly) in future.

Third. Determine the target values of financial variables for the period of implementing the financial recovery plan (for example, over the next three years). Based on conducted analysis, identified problem areas and opportunities to exercise an impact, a feasible plan is to be designed for the values of these variables – for a year, a quarter, or half a year.

Fourth. Initiate and implement specific managerial, organizational, legislative, financial, technical, and other actions to ensure the execution of the financial recovery plan. Examples of such actions include:

- Updating the budget of the municipality for the next financial year – the priorities of the updated budget need to relate directly to the measures adopted for the financial recovery of the municipality;
- Optimising the procedure for exercising internal control on expenditures by updating the System for financial management and control;
- Designing a register of delivery contracts for goods and services;
- Considering the opportunity for renegotiating payment terms; maintain an up-to-date data base of collected property tax and the vehicle tax;

- Changing the approach to planning the own revenue in the budget – annually and over the implementation period of the financial recovery plan; planning of own revenue must be based on an analysis of the receipts which are actually collectible and considering further measures for raising the tax collection rate;
- Binding the budget plan for revenue generated from property management to the estimates for receipts from the management of municipal property.

3. Analysis of the Financial Situation of Municipalities by Administrative Districts and Regions

Part three of this paper presents the municipalities where financial difficulty has been identified. They have been grouped so as to establish the type and degree of registered deviations from standard values in each administrative district (National Regional Development Strategy of the Republic of Bulgaria for the period 2012-2022, 2012) [2]. Collected data has been summarized and presented in Table 1.

Our analysis of collected data shows that:

- In 28.3% of the municipalities in Bulgaria **there has been no violation of budgetary discipline**[3], i.e. 75 out of 265 territorial units have met the fiscal rules and do not meet any of the criteria for identifying a municipality as being in financial difficulty. The majority of these municipalities are in the districts of Yambol, Ruse, Gabrovo, Haskovo, Varna, Targovishte, Sofia, Plovdiv, Dobrich, Stara Zagora, etc.

[2] For the purposes of our analysis, municipalities have been grouped by administrative districts within the context of the main strategic goal of the National Regional Development Strategy or the period 2012-2022.

[3] The term 'violation of budgetary discipline' is used in this paper to refer solely to deviations from the set fiscal targets within the context of applying Art. 130a of the Public Finance Act.

Table 1.
Criteria under the PFA which are met by municipalities in Bulgaria – by administrative districts as of 31.12.2015[4]

Districts	Total number of municipalities	Number of criteria met by the municipalities											
		0		1		2		3		4		5	
		Municipalities											
		Number	Relative share (%)	Number	Relative share (%)	Number	Relative share (%)	Number	Relative share (%)	Number	Relative share (%)	Number	Relative share (%)
Blagoevgrad	14	4	28.6	7	50.0			3	21.4				
Burgas	13	3	23.1	5	38.5	5	38.5						
Varna	12	5	41.7	3	25.0	4	33.3						
V. Tarnovo	10	3	30.0	5	50.0	1	10.0	1	10.0				
Vidin	11	2	18.2	5	45.5	2	18.2	1	9.1	1	9.1		
Vratsa	10	1	10.0	4	40.0	3	30.0	2	20.0				
Gabrovo	4	2	50.0	2	50.0								
Dobrich	8	3	37.5	3	37.5	2	25.0						
Kardzhali	7	2	28.6	3	42.9			2	28.6				
Kyustendil	9			3	33.3	3	33.3	2	22.2	1	11.1		
Lovech	8	2	25.0	4	50.0			2	25.0				
Montana	11	2	18.2	7	63.6	1	9.1	1	9.1				
Pazardzhik	12	2	16.7	4	33.3	2	16.7	4	33.3				
Pernik	6			4	66.7	1	16.7					1	16.7
Pleven	11	2	18.2	8	72.7	1	9.1						
Plovdiv	18	7	38.9	7	38.9	3	16.7	1	5.6				
Razgrad	7	2	28.6	4	57.1	1	14.3						
Ruse	8	4	50.0	3	37.5	1	12.5						
Silistra	7	2	28.6	3	42.9	2	28.6						
Sliven	4			2	50.0	1	25.0	1	25.0				
Smolyan	10	1	10.0			1	10.0	4	40.0	2	20.0	2	20.0

[4] Table 1 provides information processed by the authors of the paper, based on the data which is regularly published by the Ministry of Finance. Criteria under Art. 130a, Para. 1. To meet the methodological requirements related to the application of the PFA, the calculation of some of the variables for assessing the financial situation of municipalities must be based on summarized data for three or four years. Therefore, we have used data provided for the period from 2012 to 2015. The data which the MF has published about the first and the second quarter of 2016 lacks some essential details which prevents us from calculating the up-to-date variables of municipalities as of 2016. This has limited the time span of our research to the period up to 31.12.2015.

Sofia	23	9	39.1	11	47.8	2	8.7	1	4.3				
St. Zagora	11	4	36.4	4	36.4	2	18.2	1	9.1				
Targovishte	5	2	40.0	1	20.0	1	20.0	1	20.0				
Haskovo	11	5	45.5	2	18.2	2	18.2					2	18.2
Shumen	10	3	30.0	6	60.0	1	10.0						
Yambol	5	3	60.0	2	40.0								
Total for the country	**265**	**75**	**28.3**	**112**	**42.3**	**42**	**15.8**	**27**	**10.2**	**4**	**1.5**	**5**	**1.9**

- 42.3% of the municipalities in Bulgaria have failed to comply with the requirement **under one criterion only**. In more than half of the municipalities in the administrative districts of Pleven, Pernik, Montana, Shumen, Razgrad, Gabrovo, Veliko Tarnovo, Blagoevgrad, Lovech and Sliven one of the conditions has not been met. A more in-depth analysis reveals that nearly 70% of these municipalities have failed to meet the requirement that the revenue collection rate shall not be below the average for the country *(Criterion 6)*. Sixteen territorial units have failed to meet the condition that assumed commitments for expenses under the municipal budget existing at the end of the year may not exceed 50 % of the average annual amount of expenditure reported over the last four years *(Criterion 3).* In nine municipalities, outstanding liabilities under the municipal budget exceeded 5 % of the expenditure reported by the municipality for the last year *(Criterion 4)*, and in seven municipalities the annual amount of municipal debt payments exceeded 15 % of the average annual amount of own revenue and the general balancing subsidy (*Criterion 1*);
- 15.8% of all municipalities in Bulgaria have failed to meet the requirements set in ***two of the criteria***. In more than a third of the municipalities in the administrative districts of Burgas, Kyustendil and Varna and, to a smaller degree, in the municipalities of Vratsa, Silistra, Sliven, Dobrich, Targovishte, etc., two major problems have been identified: outstanding liabilities exceed 5 % of the expenses reported by the municipality for the last year *(Criterion 4)*; furthermore, in thirteen municipalities, the relative share of debt payments also exceeds the total sum of own revenue by more than

15% *(Criterion 1),*and in nine territorial units low rate of collectability has been registered too *(Criterion 6);*

- 10.2% of municipalities have failed to comply with ***three of the criteria***. Those municipalities are primarily located in the administrative districts of Smolyan, Pazradzhik, Kardzhali, Sliven, Lovech, Kyustendil and Blagoevgrad. Twelve administrative districts in the country have failed to comply with only two fiscal rules simultaneously and therefore cannot be identified as municipalities in financial difficulty. These are Burgas, Varna, Gabrovo, Dobrich, Pleven, Razgrad, Ruse, Silistra, Shumen and Yambol. In 14 out of 27 municipalities (i.e. 52%), it is possible to identify the simultaneous occurrence of three problems: the liabilities existing at the end of 2015 for expenses under the municipal budget exceed 15 % of the average annual amount of the expenditure reported over the last four years *(Criterion 2)*; outstanding liabilities at the end of the year exceed 5 % of the expenditure reported by the municipality for the last year *(Criterion 4)*; the tax collection rate in 2015 was below the average for the country *(Criterion 6)*. The last problem was identified in more than two-thirds of these municipalities;
- Four municipalities in Bulgaria have failed to meet the conditions set in ***four of the criteria***. Two of them are in the district of Smolyan (the municipality of Rudozem and the municipality of Smolyan), the other two being the municipality of Sapareva Banya (in the district of Kyustendil) and Vidin. As of the end of 2015, three of these municipalities failed to meet the requirements of *Criteria 2, 4 and 6*, as well as those set in *Criterion 3*, since the assumed commitments for expenses existing at the end of the year exceeded 50 % of the average annual amount of expenses reported over the last four years. What is more, the violation of those three criteria in the municipality of Rudozem was accompanied by the annual amount of municipal debt payments exceeding the average annual amount of own revenue and balancing subsidy by more than 15% *(Criterion 1);*

- Major financial difficulty due to registered deviations from ***five of the criteria*** was identified in five Bulgarian municipalities - Pernik, Banite, Nedelino, Mineralni Bani and Stambolovo. Two of them are in the district of Smolyan, two of them are in the district of Haskovo, and one is in the administrative district of Pernik. All three territorial units have failed to comply with the requirements set in *Criteria 1, 2, 3, 4 and 6*, i.e. those municipalities have managed to comply with Criterion 5 only – the balance of their municipal budget over the last three years was not a negative amount.

As it was pointed out earlier, the criteria set by the Ministry of Finance for identifying municipalities in financial difficulty, are based on the ratios between the reported variables for generated revenue, current liabilities and arrears, the reported expenditure, the budget balance, and the tax collection rate. It would therefore be interesting ***to study the relation between the ability of municipalities to generate their own revenue and the degree to which the budgetary discipline is violated***. Furthermore, a comparison between generated own revenue on the one hand, and the relative share of municipalities in financial difficulty in the same region, on the other hand, would answer the question *whether the municipalities which are successful in generating high own revenue manage to observe fiscal rules*. To account for the size of the individual territorial units according to the number of their population, our analysis continues further by comparing the concentration of municipalities in financial difficulty in individual regions to the value of generated own revenue per capita, rather than to the absolute value of generated own revenue. (see Table 2).[5] Population by districts, municipalities, place of residence and

[5] Municipal revenue per capita has been computed based on the own revenue generated by the municipalities in the fourth quarter of 2015, in compliance with Art. 45, Para. 1, Point 1 of the Public Finance Act (except for Art. 46, Art. 47 and Art. 48) including: local taxes; fees; services and rights granted by the municipality; disposal of municipal property; fines and pecuniary sanctions; interest and penalties; other proceeds; aid and donation.

gender as of 31st December 2015 is calculated by data of National Statistical Institute (National Statistical Institute, 2016).

Table 2.
Comparative data on the concentration of municipalities facing financial difficulty and municipal revenue per capita – by regions

Statistical regions	Municipalities which meet 3 to 5 criteria		Municipal revenue		Population		Municipal revenue per capita (in BGN)
	Number	Relative share (%)	Absolute amount (in BGN)	Relative share (%)	Number	Relative share (%)	
Yuzhen Tsentralen	17	29.3	321 157 642	16.5	1 436 216	20.1	223.61
Yugozapaden	8	15.4	741 675 358	38.2	2 121 185	29.7	349.65
Severozapaden	7	13.7	145 514 325	7.5	783 909	11.0	185.63
Yugoiztochen	2	6.1	311 119 047	16.0	1 052 575	14.7	295.58
Severoiztochen	1	2.9	251 807 515	13.0	944 458	13.2	266.62
Severen Tsentralen	1	2.8	171 742 922	8.8	815 441	11.4	210.61
Total for the country	**36**	**100.0**	**1 943 016 809**	**100.0**	**7 153 784**	**100.0**	**271.61**

The findings of our analysis indicate that, over the analysed period, more than ***a half of the own revenue*** in Bulgarian municipalities was generated in **the *Yuzhen Tsentralen and the Yugozapaden regions*** (54.7%), i.e. the two regions where ***the majority of municipalities in financial difficulty are***. The ***highest value*** of own revenue per capita, in contrast to the other regions, was registered in the ***Yugozapaden region***
(BGN 349.65). At the same time, this was the region where ***a large number of municipalities violating the fiscal rules was registered*** (15.4%). The value of ***revenue*** per capita in the

municipalities in the ***Severen Tsentralen Region was among the lowest for the country*** (BGN 210.61), yet ***only one municipality violating the budgetary discipline was identified in that part of the country***.

4. Identifying Major Problems and Providing Guidelines for Applying the Findings of the Analysis to Practice

Based on the analysis we have conducted, ***the problems which Bulgarian municipalities are facing and which render the financial recovery of those municipalities necessary***, may be approached from two major aspects:

First. Identifying the most common financial problems which municipalities in Bulgaria face.

The findings of our analysis indicate that ***the most common problem*** which was registered in nearly half of the municipalities was the ***tax collection rate*** over the last year, which was below the average for the country (*Criterion 6*). In terms of this criterion, the set of methods applied refer only to the revenue generated from the property and the vehicle tax. At the same time, the structure of own revenue in municipal budgets is formed by three groups of cash inflows – receipts from taxes, fees and other non-tax revenue, the three of them having roughly the same relative share. We therefore believe that this variable should also account for the collection rate of the other major types of local revenue as well, such as the patent tax, the tourist tax, the waste management fee, the various types of fees charged for using municipal property, delivered services, benefitting from certain rights, etc (Local Taxes and Fees Act, 2016, Art. 1, Para. 1, Art. 6, Para. 1).[6] A high collection rate of taxes and

[6] According to research data, local taxes account for a third of municipal own revenue, while more than 90% of that revenue is generated from property taxes which is reported under this criterion (i.e. the tax on property and the tax on vehicles). The relative share of local fees is nearly the same.

fees is a prerequisite for higher inflow of cash and, hence, for ensuring a higher volume of expenditure to meet local demands. Financial decentralization and the independence of municipalities in the administration of revenue from local taxes and fees enable the territorial units facing this problem to adopt adequate measures, such as: preparing accurate analyses of arrears; optimizing the provision of services provided to payers, including the establishment of 'stand-alone' offices in mayoralties and regions; conducting revisions of payers; restricting or denying access to administrative services to payers who have defaulted on their payments; agreements between the municipality and banks to refuse loans to individuals and legal entities who have not paid their taxes or fees, etc.

Another common problem, reported by nearly a third of the Bulgarian municipalities, is the high relative share of outstanding liabilities existing at the end of the year compared to the expenditure reported for the year (*Criterion 4*). In one out of every six municipalities, violations of *Criterion 2 and Criterion 3* were registered – *the percentage ratio between existing liabilities and assumed commitments for expenses on the one hand, and reported expenses on the other hand, exceeded the standard margins.* These problems directly affect the development potential of local economies and the ability of municipalities to fulfill their functions, and therefore require adopting relevant measures both in terms of increasing their revenue (tax and fee collection rate included) and cutting down on their expenditure.

Second. The capacity of municipalities to generate revenue does not affect the degree to which they comply with fiscal rules.

The analytical research we have conducted indicates that the municipalities which tend to violate the budget discipline are not necessarily the ones generating low own revenue, i.e. there is no direct functional relation between the researched variables.

Feasible and efficient managerial decisions may only be based on the analysis of municipal financial variables, summarised data about the administrative districts and regions over a longer period and the accurate identification of current problems. Hence, the findings of our research may be ***applied to practice in the following aspects:***

First, the set of methods for analysing the financial variables of municipalities may be employed in the design of financial recovery plans. This set of methods may be further elaborated and adapted to meet the objectives of a better municipal management after specific problems have been identified, i.e. according to the criteria which define a municipality as being in financial difficulty.

Second, the findings of the situation analysis we conducted indicate that the municipalities facing financial difficulty are irregularly distributed on the territory of the country. In addition, we identified the most common financial problems which administrative districts and regions are facing. The findings of our analysis also indicate major financial problems in some areas of the country. Hence, they could be useful in drawing the attention of central, regional and local governments to those districts and regions where their joint effort would be required for the financial recovery of the municipalities on their territory. The methods of analysis we have employed are universal and might be applied on a regular basis.

Third, the results of our analysis might also be employed in designing the guidelines for ***methodological support*** to local budget spending units by the competent units of the Ministry of Finance and/or to widen the scope of currently existing methodological guidelines so as to include relevant preventive actions in terms of compliance with the prescribed standards.

Fourth, the findings of the research may be employed by the National Association of Municipalities in the Republic of Bulgaria (NAMRB) to design and plan ***focused events*** as a body established to support municipalities in exercising their rights, provide consultancy, organize training programmes, etc. (National Association of Municipalities in the Republic of Bulgaria).

Conclusion

In ***conclusion***, we may summarise that the financial management of municipalities is accompanied by a number of weaknesses and shortcomings. Identified problem areas of local self-government take the focus of attention to the need of designing adequate mechanisms to overcome these weaknesses and shortcomings. The analysis of the financial variables of municipalities may be employed not only in applying financial recovery procedures, but also to ensure more efficient financial management of and control (Financial Management and Control in the Public Sector Act, 2016) at the different levels of the public sector. The delegation of authorities to the budget spending units to initiate actions for financial recovery (Public Finance Act, 2016, Art. 130e) brings forward the issue of managerial responsibility (Financial Management and Control in the Public Sector Act, 2016, Art. 6 – 7). One of the prerequisites for improving local management is to have methodological support provided by the authorities. This would contribute to designing and implementing sound and efficient decisions in the local planning and exploitation of public resources and employing adequate policies and procedures of financial management and control.

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The journal of "Business Management" publishes research articles, methodological articles and studies, review articles, book reviews, commentaries and good practices reports.

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- Format – Word for Windows 2003 (at least);
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- - Title of article title; name, scientific degree and scientific title of author – font: Times New Roman, 14 pt, capital letters, Bold – centered;
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- - **JEL** classification code for papers in Economics (http://ideas.repec.org/j/index.html);
- - Introduction – it should be from half a page to a page long. It should state the main ideas and/or objectives of the study and justify the relevance of the discussed issue.
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