The Impact of External Environmental Factors on the State of Public Institutions: Municipal Administrations in Bulgaria and the Potential for Local Development

Stanka Delcheva, STRATEGMA Agency Ltd., Bulgaria[1]

sdelcheva@strategma.bg

Abstract

This study examines the relationship between institutional performance and external development factors in Bulgarian municipal administrations. It combines qualitative evidence from functional reviews of 147 municipalities with quantitative composite indices measuring governance capacity, civic capacity and human development, and economic development. Using a mixed-methods approach, including comparative and correlation analysis, the research investigates whether institutional weaknesses are reflected in commonly used development indicators.

The results show no statistically significant relationship between the intensity of institutional weaknesses and the values of the composite indices. In contrast, strong relationships are observed among the indices themselves and with structural characteristics such as municipal size, economic role, and functional classification. Indicators such as EU funds absorption and own revenue capacity are found to reflect structural and economic conditions rather than internal administrative performance.

The findings suggest that institutional weaknesses are systemic across municipalities and not adequately captured by existing measurement frameworks. The study highlights a structural disconnect between governance processes and commonly used development indicators and underscores the need for improved approaches that integrate qualitative and quantitative assessments of institutional capacity.

Keywords: municipal administrations; institutional capacity; governance capacity; functional reviews; local development; composite indices; institutional weaknesses; public administration; municipal governance; Bulgaria.

Introduction

Understanding the relationship between institutional capacity and development outcomes remains a central issue in public administration and local development research. Municipal administrations play a key role in providing public services, formulating policies, and allocating resources at the local level.

Despite the widespread assumption/that high-quality governance is directly linked to socio-economic development, most studies focus on relationships between composite indices and macro-level economic and social indicators. These analyses are typically conducted at national or regional (NUTS III) levels, while municipal-level analysis remains limited.

[1] Programme Director, STRATEGMA Agency Ltd., Sofia, Bulgaria

The extensive use of composite indices raises the question of **whether these indicators adequately reflect the real institutional condition of local administrations**.

This study addresses this issue by examining the relationships between the results of functional reviews of Bulgarian municipal administrations and indices of local development potential. The study was conducted within the framework of the project "Hybrid Assistant for Institutional Excellence", funded under the Programme for Competitiveness and Innovation in Enterprises 2021–2027 through the European Regional Development Fund (ERDF) [2] and implemented by STRATEGMA Agency. The project aims to develop a methodology for generating a comprehensive assessment of the institutional condition of public institutions, including data-driven solutions and predictive models for future development. The project aims is grounded in the concept of institutional excellence, understood as a continuous and deliberate effort to establish an internal governance framework. This framework encompasses interrelated components such as institutional governance, management of human and material resources, policy formulation with stakeholder participation, development and evaluation of regulatory acts, service delivery, ethical standards, and mechanisms for accountability and transparency, including alignment with the public interest.

This report presents the results of research on the existence and quality of relationships between elements of institutional excellence framework at the municipal level—such as governance processes, policy formulation, resource management, and service provision—and external (exogenous) factors, including economic, demographic, and civic capacity conditions.

The analysis builds on comparative results from previous projects focused on developing an index of local development potential and identifying typologies of institutional problems and recommendations derived from functional reviews of Bulgarian municipal administrations.

The methodology for monitoring and evaluating local development potential was developed in 2023 within the project "Activating Local Potential for Development" [3]. Its objective is to promote open and accountable governance at the local level by leveraging local capacities for integrated development.

The methodology operates with three core components: governance capacity (GC), civic capacity and human development (CCHD), and economic development (ED). Each component is measured through a defined set of indicators. The approach reflects the understanding that governance quality is shaped by institutional, economic, and civic factors[4].

The governance capacity indicator incorporates data from the active transparency rating of local administrations (Access to Information Programme) [5], municipal self-assessments of e-government development, and financial indicators related to local capacity for effective governance, processed by the Institute for Market Economy within the framework of the "265 Stories about Economics"[6].

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[2] Project `Hybrid Assistant for Institutional Excellence`, BG16RFPR001-1.001-0446

[3] project "Activating Local Potential for Development Purposes", funded under Operational Programme "Good Governance", Contract No. BG05SFOP001-2.025-0100-C01/23.08.2022, with the support of the ESF

[4] Kalfova, E., Quality of Governance and EU Regional Policy. Evidence from Bulgaria, 26th NISPAcee Annual Conference, 2018

[5] https://data.aip-bg.org/surveys/O24H73/rankings?d=Y&institutionCategory=IN0012

[6] https://265obshtini.bg/

The CCHD indicator is based on data on active NGOs and project participation, as well as demographic, educational, and economic activity indicators sourced from the National Statistical Institute.

The indicator for civic capacity and human development (GCHD) is based on data on active NGOs and project participation at the municipal level, as well as demographic, educational, and economic activity indicators sourced from the National Statistical Institute (NSI).

The economic development index includes firm-level indicators, wage levels, employment and unemployment rates, normalized relative to national averages also based on NSI data at the municipal level. Indicators contribute to index formation with predefined weights.

The analysis of institutional problems is based on reviews analyses conducted across 147 municipalities (2013–2015)[7], funded under the Operational Programme "Administrative Capacity". These analyses were systematized[8] under a contract with the National Association of Municipalities[9].

Functional review has become a key instrument for administrative modernization in Bulgaria. Since 1997, various methodologies have been tested for conducting functional reviews of varying scope. In 2008, the Unified Methodology for Conducting Functional Review in State Administration (UMFRSA) and the Manual for Implementing the Unified Methodology for Conducting Functional Review in State Administration (UMFRSA Manual) were developed.

The FRs prepared cover all types of municipalities according to the Unified Classifier of Administrative-Territorial and Territorial Units.

Within the framework of the contract for the review and analysis of the prepared FRs of municipalities, based on a developed system of indicators, 7 groups of municipalities were identified, in which there are similar problems and factors affecting the structure of the respective municipal administration (MA). Leading factors for grouping the municipalities are the requirements related to the organization of the MA and their specific administrative-territorial characteristics. These groups are:

Table 1: Functional classification of Bulgarian municipalities based on administrative structure and territorial characteristics

Group	Model Description	Subcategories / Criteria
Group 1	Specific model of municipal administrations (MAs) in municipalities with districts	_
Group 2	Standard model of MAs in municipalities serving as regional administrative centres	_
Group 3	Standard model of MAs in municipalities functioning as supporting centres for the respective administrative region	**3A:** Centres with an organising and stabilising role **3B:** Municipal centres acting as strong regional balancers
Group 4	Specific model of MAs in medium-sized municipalities with a distinct economic focus	**4A:** Centres with stabilising and balancing role for the area **4B:** Municipalities with mountain resorts **4C:** Municipalities with seaside resorts
Group 5	Standard model of MAs in medium-sized municipalities	**5A:** Municipalities that independently provide financial support for local activities

[7] funding under the Operational Program "Administrative Capacity" (OPAC)

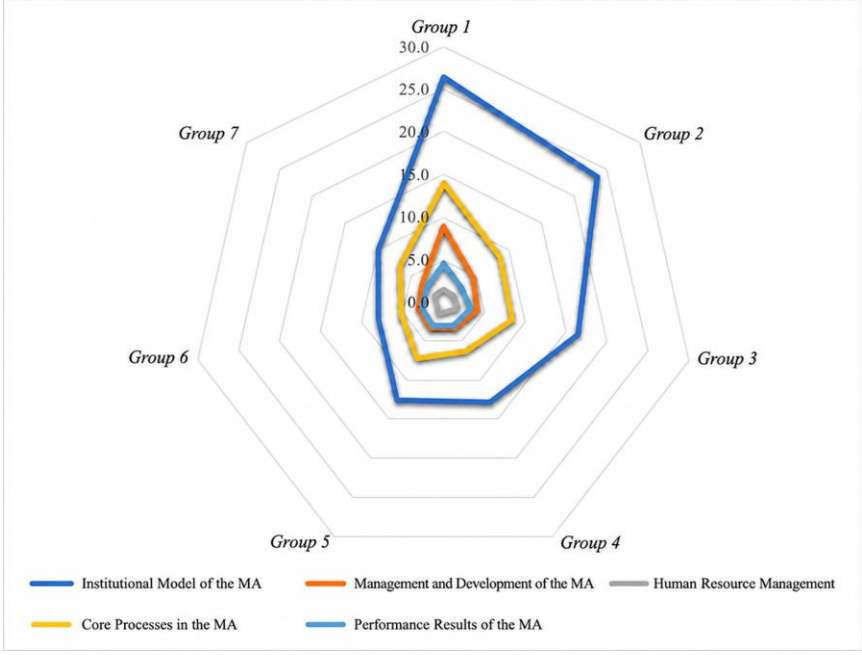
[8] by STRATEGMA Agency, 2017

[9] project No. BG 05SFOP001-2.001-0008 "Creation of models for optimal administrative structures of municipalities", funded by the Operational Programme "Good Governance" (OPGU), co-financed by the European Union through the European Social Fund

Group	Model Description	Subcategories / Criteria
		5B: Municipalities that partially finance local activities
Group 6	Specific model of MAs in municipalities with a large number of mayoralties	**6A:** Municipalities without central municipal seat (special case) **6B:** Municipalities with many mayoralties
Group 7	Basic model of MAs in small municipalities	**7A:** Typical small municipal centres **7B:** Small centres with few mayoralties **7C:** Single-settlement municipalities (special case)

As part of the same contract, an analysis was conducted of the problems identified in the functional reviews (FRs), based on the processing of the primary information contained in the reports. According to the Unified Methodology for Conducting Functional Review in State Administration (UMCFRSA), these reports are required to include a dedicated section presenting systematized "general findings and conclusions regarding the relevance of functions, as well as the effectiveness, efficiency, and economy of the activities of the administrative structure." The identified problems were aggregated for each of the seven defined groups of municipalities. The intensity of the identified problems was measured as the concentration of the number of "weaknesses" reported in the functional reviews for each respective group of municipalities. It should be noted that there are differences among the functional reviews in terms of wording, depth, and level of detail in the presentation of findings. This aspect has been taken into account in the process of aggregating and summarizing the identified problems.

Figure 1. Average intensity of identified problems per municipality within each group, by object of the functional review



Source: Strategma Agency, 2017

The data from the conducted functional reviews (FRs) indicate that problems related to the institutional model of municipal administrations (MAs) are the most numerous. This is expected, as the elements defining the

institutional model of MAs, according to the Unified Methodology for Conducting Functional Review in State Administration (UMCFRSA), are the most extensively covered in the conducted FRs. The largest share of identified problems relates to the local regulatory framework, including the Rules of Organisation (RoO) of the respective municipal administration, municipal council ordinances, and internal regulatory and organisational acts. A number of legal and technical deficiencies in the analysed acts have also been identified. The second most prominent group of problems concerns the way in which the functions of structural units are formulated and implemented. The third group of identified problems relates to the organisational structure, including the determination of positions within municipal administrations and the staffing schedule.

In essence, all identified problems are, to varying degrees, linked to legal and regulatory aspects governing the organisation and functioning of municipal administrations. These three groups of problems are most pronounced in municipal administrations from Group 1, followed by Groups 2 and 3.

A common issue across virtually all groups of municipalities is the lack of indicators for measuring long-term and annual objectives of municipal administrations and/or their structural units.

With regard to the remaining areas of analysis concerning the management and development of municipal administrations, problems are relatively evenly distributed across all groups, with slightly lower values observed in Group 7 municipalities.

Problems related to human resource management are also relatively evenly distributed across all groups, with higher intensity observed in Groups 1 and 3. Notably, in Group 1, no problems were identified in relation to the planning and evaluation of individual performance.

Problems associated with the core processes examined within municipal administrations are likewise relatively evenly distributed across all groups.

The highest number of problems related to the results of municipal administration activities was identified in municipalities from Groups 1, 3, and 5.

Considering the results derived from the implementation of the two aforementioned projects, the present study examines the extent to which the developed indicators of administrative capacity and local development reflect the dimensions of governance quality, as expressed through the results obtained from the application of functional review tools in assessing organisational conditions, governance processes, policy formulation and monitoring, and the management of human and material resources. The use of the available data enables an analysis of the relationships between these factors at the municipal level, thereby expanding the potential for identifying linkages and effective solutions for monitoring and developing administrative capacity beyond the conventional national and regional (district) levels.

Methodology

The present study applies an integrated analytical approach combining qualitative and quantitative methods for assessing the institutional condition of municipal administrations. The main objective is to examine the

relationships between identified governance problems, established through functional reviews (FRs), and the values of synthetic indices measuring different aspects of local development potential.

The methodological design is based on comparative analysis, which seeks comparability between different types of data – qualitative findings on institutional organisation and quantitative indicators of capacity and development.

The empirical basis of the study includes two main datasets[10]:

- Data from functional reviews (FRs):
  The object of analysis comprises 147 municipal administrations for which functional reviews have been conducted in accordance with the Unified Methodology for Conducting Functional Review in State Administration (UMCFRSA). These analyses contain systematised assessments regarding the relevance of functions, effectiveness, efficiency, and economy of administrative activity.
- Data on indices of local development potential:
  Three composite indices are used: governance capacity (GC); civic capacity and human development (CCHD); and economic development (ED).

These indices are constructed based on official statistical and administrative data and reflect different dimensions of the functioning of local systems.

For the purposes of the analysis, the grouping of municipalities developed in the review and analysis of the functional reviews has been applied. Municipalities are grouped into seven functional categories defined on the basis of administrative-territorial characteristics, organisational model, and role within the regional system. This typology provides an analytical framework for comparison between units with similar characteristics and allows the identification of typical models of functioning and problems.

For the operationalisation of analytical variables, transformations carried out during data processing in the cited projects have been used. Qualitative information from the functional reviews has been transformed into measurable indicators through:

- identification and systematisation of “weaknesses”;
- aggregation of problems by thematic areas (institutional model, processes, governance, human resources, results);
- calculation of problem intensity as the concentration of identified weaknesses across groups of municipalities.

The composite indices are used as synthetic measures of development and capacity. For the purposes of comparative analysis, a categorisation into three levels (high, medium, low) has been applied for each of the three indices, which allows the derivation of relative positions of municipalities.

The analysis is carried out through the sequential application of the following procedures:

- aggregation and systematisation of problems: using existing summaries of findings from functional reviews by municipal group and thematic area;

[10] The projects under which the data were collected are indicated in the Introduction

- assessment of problem intensity: measured through the average number of identified weaknesses for the respective municipal group;
- categorisation of problem profiles: through an additional analytical approach, including the use of artificial intelligence tools, municipalities are classified into three categories: high-problem, medium-problem, and low-problem;
- comparative analysis: comparison between municipal problem profiles and development index values;
- analysis of relationships: examining relationships between problem intensity and index levels; functional group and institutional capacity; number of weaknesses and socio-economic characteristics.

The summary of problems derived from functional reviews provides a snapshot of the state of municipal administrations in terms of governance approaches, procedures, and the extent of results achieved and their monitoring, while the Governance Capacity index is based on synthetic indicators (other indices/ratings), as well as financial indicators.

The applied approach seeks to answer the question of the extent to which functional review can provide tools for assessing governance capacity and whether the results from functional reviews are comparable to the categorisation based on development indices.

The methodology takes into account a number of limitations that should be considered when interpreting the results:

- variations in the quality and depth of functional reviews;
- incomplete temporal alignment between different data sources;
- limited comparability between qualitative and quantitative indicators;
- the presence of systemic problems that occur regardless of the type of municipality.

The quality of the reports from the conducted functional reviews is not homogeneous, and the application of the different aspects of the methodology (relevance, effectiveness, efficiency, and economy) is not equally in-depth, largely due to the absence of specific definitions, procedures, and guidance in the methodology and its implementation manual.

Functional reviews of municipalities were conducted in the period 2013–2015, while the data used for constructing development indices cover the period 2017/2018–2021. Despite this difference, the conclusions from the functional reviews remain valid for the later period, as no significant regulatory or organisational changes have occurred in the environment determining the functions of municipal administrations.

Table 2: Distribution of municipalities with FA by functional groups

Group	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Number of municipalities in a group	3	24	22	60	53	25	78
Number of municipalities with FA in a group	2	14	14	36	33	11	37
% municipalities with FA	66,7	58,3	63,6	60,0	62,3	44,0	47,4

FRs have been conducted for a significant number of municipalities, and therefore the conclusions from it could potentially be interpolated for all municipalities.

Analysis of relationships between the results of functional reviews and development indices

1. **Categorisation of municipal functional groups based on additional problem analysis using artificial intelligence (AI)**

Based on the aggregated key problems of municipal administration structures across the seven functional groups of municipalities, a categorisation was developed with the assistance of artificial intelligence[11]. The groups were classified into three main types: municipalities with a high level of problems, municipalities with a medium level of problems, and municipalities with a low level of problems.

Table 3: Categorisation of municipal groups according to the intensity of identified problems

Group	**Problem profile**	**Additional characteristics**
Group 1	Medium–broad profile	Specificity "districts"
Group 2	Highly problematic profile	Systemic problem
Group 3A	Medium–high profile	–
Group 3B	Highly problematic profile	High "functional fragmentation"
Group 4A	Medium problematic profile	"Dispersed" control functions
Group 4B	Medium problematic profile	HR / structural inconsistencies
Group 4C	Low problematic profile	"Fiscally risky"
Group 5A	Medium problematic profile	Resource scarcity
Group 5B	Highest problematic profile	Broadest scope of problems
Group 6A	Low problematic profile	–
Group 6B	Low problematic profile	Weakness in "measurability / accountability"
Group 7A	Highly problematic profile	–
Group 7B	Low problematic profile	Clear "procedural gaps"
Group 7C	Low problematic profile	Fewest problems, deficit of indicators

Municipalities with a high level of problems include Groups 2, 3B, 5B, and 7A. Municipalities with a medium level of problems include Groups 3A, 4A, 4B, and 5A. Municipalities with a low level of problems include Groups 4C, 6A, 6B, 7B, and 7C.

This categorisation **does not establish a relationship between the intensity of problems and the functional grouping of municipalities**.

A significant portion of the problems across the analysed areas is identified in all groups, indicating that these are **systemic problems affecting municipalities regardless of their type**.

[11] ChatGTP

Table 4: Distribution of problem types across FA domains

Area	Widespread problem
Institutional model of municipal administrations	missing (unassigned) functions, duplicated functionsq, atypical or incorrectly organised functions
	imbalance between general and specialised administration
	deficiencies in organisational structure and staffing
	imperfections in Rules of Organisation
Core processes	absence of annual objectives / goal-setting
	absence or non-use of indicators
	insufficient own revenues / dependence on subsidies
Governance and development of MAs	absence or lack of clarity of institutional mission
	absence of defined objectives or they are not known, including the absence of annual goals of the administration
	weak coordination between structural units
Human resource management	insufficient staffing levels
	high workload
	lack/need of training
Results	absence of indicators / lack of target values
	inability to measure effectiveness, efficiency, and economy
	disrupted link "results ↔ resources"
	lack of systematised data

Municipalities of all types are represented in each category.

High-problem groups include both administrative regional centres (large and medium-sized municipalities) with a standard model of municipal administration (Group 2), municipal centres with a balancing role within their respective region (Group 3B—relatively close, but not in the immediate proximity of a major economic centre), as well as medium-sized municipalities with a standard administrative model (Group 5B) and small municipal centres (Group 7A).

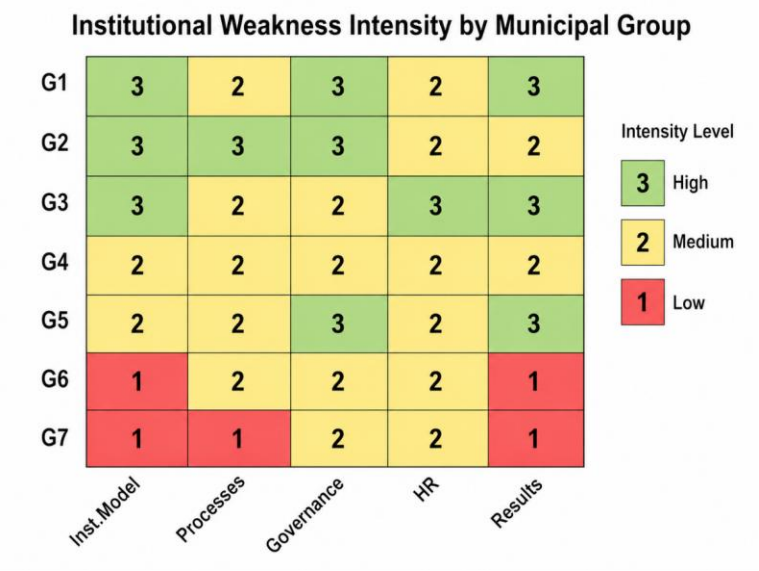
For municipalities in Groups 5B and 7A, a notable feature is the presence of a significant share (approximately 60%) of mountainous municipalities, some of which are located at a considerable distance from major economic centres.

Medium-problem groups of municipalities include municipal centres with an organising and stabilising role for the respective region (Group 3A, large municipalities), municipal centres with a stabilising and balancing role for the respective region (Group 4A, ranging from large to medium and small), municipalities with national and local mountain resorts (Group 4B), and medium-sized municipalities (Group 5A) with relatively stable local budgets.

Low-problem municipalities include those with national and local seaside resorts (Group 4C), municipalities without a central municipal seat and with a large number of mayoralties, located in close proximity to economic centres (Group 6A), municipalities with a large number of mayoralties (Group 6B), small municipal centres with a limited number of mayoralties, predominantly mountainous (Group 7B), and municipalities consisting of a single settlement, located near an economic centre (Group 7C).

The broadest footprint of problems is observed in municipalities from Groups 5B, 2, and 7A, while the lowest intensity of problems is found in Groups 6A, 7C, 4C, and 6B.

Figure 2. Heatmap of institutional weaknesses across municipal groups and analytical categories



The heatmap analysis confirms the systemic nature of institutional weaknesses, with high intensity observed across multiple categories and municipal types.

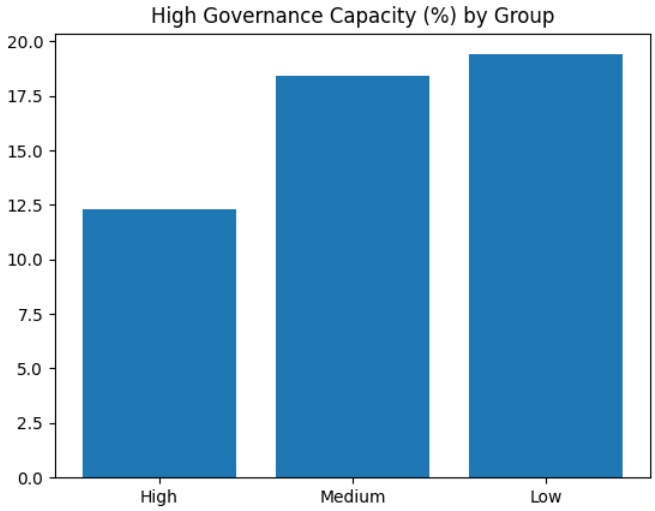
2. Relationships between problem groups and development indices

For municipalities with completed functional reviews, grouped into high-, medium-, and low-problem categories, the distribution of high, medium, and low values of the Governance Capacity, Civic Capacity and Human Development, and Economic Development indices was analysed.

Table 5: Distribution of Governance Capacity by Problem Group (%)

Group	GC high	GC medium	GC low	CCHD high	CCHD medium	CCHD low	ED high	ED medium	ED low
High-problem (65)	12,3	69,2	18,5	33,8	38,5	27,7	30,8	32,3	36,9
Medium-problem (49)	18,4	59,2	22,4	26,5	55,1	18,4	36,7	32,7	30,6
Low-problem (31)	19,4	71,0	9,7	25,8	41,9	32,3	19,4	48,4	32,3

Figure 3. Distribution of high governance capacity across municipal groups



This figure presents the share of municipalities with high governance capacity across problem-based group classifications.

For the group of municipalities with functional reviews, a weak positive trend is observed for the Governance Capacity (GC) index. GC is high for 12.3% of high-problem municipalities and for 19.4% of low-problem municipalities. A low GC index is observed for 18.5% of high-problem municipalities and only 9.7% of low-problem municipalities.

For the Civic Capacity and Human Development (CCHD) and Economic Development (ED) indices, no trend is confirmed indicating lower index levels for high-problem municipalities. On the contrary, a relatively higher share of high- and medium-problem municipalities with functional reviews exhibit high CCHD and ED index values compared to low-problem municipalities.

3. Relationships between the intensity of identified weaknesses and the functional grouping of municipalities

The relationship between the number of identified weaknesses, as grouped in the analysis of the conducted functional reviews, and the index values for the respective municipalities was also examined.

Table 6: Linear correlation between the number of weaknesses and the value of local development indices by municipality - Pearson correlation coefficients

	Pearson r	
Weaknesses/GC	-0.023	no relationship
Weaknesses/CCHD	-0.020	no relationship
Weaknesses/ED	0.016	no relationship

A correlation of 0.5 or higher (or -0.5 or lower) indicates a large effect, while 0.3–0.5 (or -0.3 to -0.5) is considered medium

Using the linear correlation coefficient, it was established that **there is no statistically significant relationship between the intensity of weaknesses identified through functional reviews (FRs) and the values of the indices**. This applies to Governance Capacity (GC), Civic Capacity and Human Development (CCHD), and Economic Development (ED).

Municipalities with a high number of weaknesses are concentrated in groups identified through artificial intelligence as high-problem and medium-problem (three municipalities from the high-problem group and two from the medium-problem group). The highest overall concentration of weaknesses is observed in Groups 7A, 5B, and 4A. These include small municipal centres, predominantly mountainous (Group 7A), medium-sized municipalities with limited own financial capacity, more than half of which are mountainous (Group 5B), and medium-sized municipalities with a stabilising and balancing role within the respective administrative region (Group 4A).

4. Relationships between development indices and functional groups

The relationship between the values of the development indices (primarily the GC index) and the typology of municipalities across the seven functional groups demonstrates a **clear link between the size of municipalities and the presence of capacity**. The smaller the municipalities, the greater the share of those with medium and low GC index values.

Municipalities in Groups 1, 2, and 3 exhibit high and medium values across all three indices, with none of the 49 municipalities in these groups having low values for any of the indices. For all municipalities in these groups, the share of high values for the Civic Capacity and Human Development (CCHD) and Economic Development (ED) indices exceeds the share of medium values. At the same time, for all municipalities in these groups, the share of medium GC values exceeds the share of high values, with this pattern being particularly pronounced in Group 3A—municipal centres with an organising and stabilising role within the respective administrative region.

These three groups include the capital city and the two largest economic centres in the country, the administrative regional centres, as well as municipalities that function as stabilising and balancing centres for their respective administrative regions.

Figure 4. Distribution of municipalities by index levels across functional groups



The first group in which the presence of a low GC index is identified is Group 4: medium-sized municipalities with a specific economic focus—namely Group 4A, which includes municipal centres with a stabilising and balancing role within the respective administrative region, and Group 4B, comprising municipalities with national and local mountain resorts. It is noteworthy that in Group 4C—municipalities with national and local seaside resorts—there are no municipalities with a low GC index. On the contrary, the highest share of municipalities with a high GC index is observed in this group (4C) compared to all other groups. Municipalities in Group 4C exhibit high and medium values of the ED index, with none showing low ED values.

Following this trend, it is expected that in Groups 5 and 7 (medium-sized and small municipalities), there is a significant share of municipalities with a low GC index and correspondingly low ED and CCHD indices.

Out of 85 municipalities with a high ED index (out of a total of 265), only 5 have a low GC index (while 52 have a medium GC index). It can therefore be concluded that in groups of municipalities where the ED index is high or medium, the GC and CCHD indices are also high or medium (i.e. there are no municipalities with low index values).

However, there are two exceptions to the general pattern that smaller municipalities tend to have a higher share of low GC index values—namely Group 6 (both 6A and 6B) and Group 7C. Despite including municipalities with medium and relatively small populations, Group 6 has no municipalities with a low GC index, while in Group 7C, high and medium GC index values prevail.

The exception observed in Group 6A is related to the characteristics of the municipalities included in this group. These are municipalities of medium and above-average population size, located in immediate proximity to a large administrative and economically developed centre—four municipalities in total. A similar explanation applies to the exception observed in Group 7C—these are small municipalities consisting of a single settlement, which are generally located near a developed economic centre (five of them), or host a significant economic entity (one case).

A notable deviation is observed, however, in Group 6B. These are municipalities with a large number of mayoralties (settlements), with medium, small, and very small populations, which are characterised by predominantly low ED index values and medium to low CCHD index values, but high and medium GC index values.

The significance of the relationship between functional grouping and index values is further demonstrated through the values of Spearman's rank correlation coefficient[12].

Table 7: Rank correlation between functional groups and the value of local development indices by municipality - Spearman correlation

	Spearman ρ	
Group/GC	-0.347	weak negative relationship
Group/CCHD	-0.601	strong negative relationship
Group/ED	-0.544	moderate negative relationship

With progression to higher functional groups, particularly Groups 5–7, the values of the indices decline. In other words, the size, role, and territorial type of the municipality are much more strongly associated with the index values than the number of weaknesses identified through functional reviews.

The analysis of relationships between the values of the different indices shows a very strong positive correlation between the ED index and the CCHD index, but only a partial relationship between these and the GC index. A partial relationship is observed between high ED index values and the GC index, driven primarily by the "Self-assessment" indicator (one of the components of the GC index). This relationship suggests the existence of some degree of association between a high ED index and the quality of administrative service delivery by municipal administrations.

[12] Strength of the relationship at ρ 0.00 - 0.19 very weak, 0.20 - 0.39 weak, 0.40 - 0.59 moderate, 0.60 - 0.79 strong, 0.80 - 1.00 very strong

The analysis of the relationships between the GC index and the component indicators of the other indices indicates a certain degree of association between high levels of governance capacity and the share of the population with higher education, as well as a minimal association between low governance capacity and the share of the economically inactive population in the respective municipality.

A statistically significant relationship is identified between the indicator for EU funds absorption (EUF, a component of the GC index) and the functional classification of municipalities. Spearman's correlation shows a moderate negative relationship ($\rho \approx -0.30$, $p < 0.01$), suggesting that municipalities in higher functional groups exhibit lower levels of EU funds absorption.

In contrast, no significant relationship is found between EUF and the intensity of institutional weaknesses identified through functional reviews. This indicates that EU funds absorption is influenced primarily by structural and contextual factors, such as the size of the municipality and its economic role, rather than by administrative performance and institutional capacity. In this sense, the indicator may be interpreted as reflecting the context in which the municipality operates, rather than its institutional characteristics.

A statistically significant relationship is also identified between the indicator for municipalities' own revenues and the development indices.

Table 8: Correlations between the own revenue indicator and the value of local development indices by municipality

	Pearson r	**Spearman ρ**	**Relationship**
Own revenue capacity/ED	0.72	0.70	strong
Own revenue capacity/CCHD	0.48	0.45	moderate
Own revenue capacity/GC	0.41	0.39	moderate to weak

Thus, own revenues depend primarily on the economic development of the municipality (associated with expected higher tax revenues), and to a lesser extent on civic capacity and governance capacity. The correlation coefficients do not indicate any relationship between own revenues and institutional weaknesses (i.e. the number of weaknesses identified through functional reviews).

Conclusion

The examined relationships between capacity and development indices and the governance problems identified through the conducted functional reviews reveal a limited and inconsistent relationship between index values and the intensity of problems. A weak positive association is observed between low-problem municipalities and high values of the Governance Capacity (GC) index. However, this finding is not valid for all observed municipalities, indicating that governance capacity, as measured through composite indices, does not fully capture the underlying institutional deficiencies.

The presence of municipalities classified as high-problem while simultaneously exhibiting medium or high values of the Economic Development (ED) index suggests that favourable socio-economic conditions may coexist with institutional inefficiency.

No specific relationship is identified between the observed governance problems and the typology of municipal groups defined on the basis of their administrative characteristics.

A primary reason for the absence of such a relationship is that a substantial share of the problems identified through functional analyses are systemic, which largely explains their occurrence across municipal administrations of all types. These problems are observed across all levels/groups of municipalities, regardless of their specific characteristics related to human resources, economic development, governance capacity, or civic capacity.

In general terms, no correlation is identified between exogenous factors affecting the administration and the level of institutional excellence in governance at the municipal level. Some specific relationships are observed, however, which should be taken into account in the analysis, assessment, and planning of measures aimed at improving municipal administrative capacity. For example, low levels of economic development and peripheral location should be considered as factors increasing the risk to governance quality.

A relationship is observed between the size of municipalities (in terms of population), their economic profile, and the values of the Governance Capacity, Civic Capacity and Human Development, and Economic Development indices. Large municipalities and administrative and economic centres (Groups 1–3) demonstrate medium to high index values across all dimensions. No low index values are observed for these municipalities. In contrast, as population size decreases and the specificity of administrative structures increases—such as a large number of mayoralties, absence of a central municipal seat, single-settlement municipalities—and as remoteness increases, the frequency of low index values also increases, particularly with respect to governance capacity and economic development.

The observed exceptions among small municipalities are associated with proximity to economic centres or with municipalities possessing a specific economic profile (e.g. tourism / seaside tourism).

Synthetic indicators that are indirectly related to governance (such as transparency indices, self-assessment of administrative service delivery, and capacity for financial absorption) only partially reflect the institutional condition and the state of governance and development processes in municipal administrations, and cannot be considered as comprehensive and reliable indicators of institutional performance. Structural and contextual factors (such as size, location, and economic conditions) play a more significant role in local development than institutional weaknesses, but they also do not allow for a direct assessment of the level of institutional excellence at the local level.

Due to the aggregation of heterogeneous indicators within the composite indices—many of which are outcome-based rather than process-based—their measurement may not adequately reflect the characteristics of governance.

The observed absence of a significant relationship between the intensity of institutional weaknesses identified through functional reviews and the values of the indices shows that the existing measurement tools tend to reflect the structural conditions in which municipalities operate, rather than the internal capacity of administrations to plan, organize, implement, measure, and improve their activities. This makes it necessary

to distinguish between the capacity of the local environment and the governance capacity of the administration itself.

Institutional performance should be assessed through dedicated measurement tools encompassing standardised indicators of administrative processes, as well as through the integration of qualitative diagnostics within quantitative measurement frameworks.

Examining the extent to which the existing regulatory and methodological framework requires administrations, including municipalities, to formulate sufficiently clear objectives, indicators, results, and links between resources and effects is a prerequisite for planning specific tools for assessing governance capacity. The analytical framework should be expanded by incorporating dimensions of governance examined within functional reviews or by measuring institutional maturity. The context in which administrations operate should not be underestimated; rather, it should provide the basis for interpreting the results of governance assessment and for defining risks to governance quality.

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