

**SOFIA
CITY DEVELOPMENT STRATEGY**

Assessment Report

draft

March 2001

SOFIA CITY DEVELOPMENT STRATEGY

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Sofia City Development Strategy

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Executive Summary

I. Introduction.

Sofia, like many cities in Central and Eastern Europe, is now in the process of developing a strategic plan that will guide its future development and will contribute to the achievement of economic prosperity, social equity and more efficient governance. This process is well underway, under able city management, and considerable progress has already been made. Funded by the City Alliance, the World Bank is assisting the development of this strategy based on its experience with other cities in transition economies. This experience suggests that within the context of the uneven economic development of Bulgaria in the last decade, and the broad social and economic agenda Sofia has to respond to, it would seem important to focus efforts on a limited number of key objectives that exploit the unique set of opportunities of the city. This report attempts to identify a selected number of issues, which seem to be crucial in terms of defining the development path of the city. This is not an exhaustive list of issues, however, it is perceived as a way to initiate a discussion with city officials and other key stakeholders as part of the City Development Strategy (CDS) process. The main body of the assessment report presents major findings as well as proposed areas for possible reform. The technical discussions are grouped in three annexes for each of the identified areas at the end of the report.

II. The Constraints and Opportunities That Affect Sofia's Development Strategy.

In defining the key forces affecting the development of the city, it is important to consider its unique circumstances and historical legacy, and the way they shape the context for policy intervention and action. Cities' prospects are affected by factors both beyond and within their control. For example, national economic policies always have a profound effect on cities. Similarly, cities' finances are, for a substantial part, dependent on a specific structure of intergovernmental relations that sets the framework for local autonomy. These rules, like the ones affecting the overall economy, are also largely beyond cities' control. In contrast, there are factors that cities control in a more explicit manner. Spatial planning rules and general business environment regulations determine how costly it is to innovate and to do business in a particular city. Thus, while a city's strategy can make an important contribution to improving both the overall economic environment and the quality of intergovernmental relations, it cannot control these factors. However, a successful City Development Strategy should acknowledge all major constraints for development to address them in a medium or longer run and in partnership with the Central Government and other stakeholders. One area, where city's policy can exercise immediate control is related to local regulations for management of utilities,

business licensing, and zoning by-laws. In the case of Sofia interventions in that area can be expected to enhance its competitiveness and ability to attract investment, since the city still bears the heavy costs of its socialist spatial legacy.

What follows will highlight how Sofia's circumstances affect the formulation of Sofia's strategic objectives, development priorities and policy actions so that it can improve its economic performance and system of governance.

A. Sofia's Economy and Business Environment.

Issues. Like other capital cities in the region, Sofia is in many ways one of the main engines of growth for the national economy. It has a higher per capita income than the rest of the country, and contributes close to 20 percent to the national GDP. However, in contrast to other capital cities in the region, Sofia's economy appears to have followed a more intensive industrialized pattern of development, as indicated, for example by the 43 percent employment in manufacturing at the start of the transition. While the city has experienced a rapid shift to a service-based economy, today it still maintains a relatively high share of manufacturing jobs concentrated in large state-owned enterprises. Thus, if Sofia follows the pattern of other large cities in the region, such as Prague, Warsaw and Budapest, privatization further privatization is inevitable. This will no doubt result in job losses and increase unemployment that is currently four times lower than the national average. The city, nevertheless, has major opportunities that can be exploited. It remains the center of productive, financial and intellectual life in the country, and, as such, has a large, highly educated labor force. This concentration of relatively low-wage but talented human capital can be expected to have significant spillover effects on productivity. The local economy has attracted close to 40 percent of the foreign direct investment in the country, particularly in sectors such as retail, banking and high tech industries.

Proposals for discussion. In the economic realm Sofia's challenge and opportunity is to create a climate, which fosters the restructuring and modernization of the economy and contributes to sustainable and equitable growth. It is important to find the ways in which the city can accelerate the privatization of the manufacturing sector, while at the same time creating an incentive structure to encourage new investment and job creation. The CDS process could identify a range of options to accomplish this task. It could convene a discussion with the business community, Sofia's municipal officials, and representatives of non-government organizations to explore opportunities for improvement of the economic environment along the following strategic directions: *i) attracting and retaining businesses effectively with policies that target growth sectors; ii) investing in human capital, including support for employment retraining, iii) improving competitiveness by marketing the city internationally, removing barriers for investment and coordinating economic development initiatives, and iv) investing in infrastructure.*

B. Social Needs and Institutional Constraints on the City's Ability to Function.

Issues. As is the case with all large cities in democratic countries, Sofia municipality has in recent years acquired extensive responsibilities. However, unlike

other capital cities in the region, Sofia's population is by no means better off than those who live in the country. The result is that the city has one of the largest concentration of poor people in Bulgaria. Poverty rates in 1997 were as high as 37 percent, which was higher than the national average. Correspondingly, the municipality is under a lot of pressure to deliver social services such as education, health care and social assistance to a much higher share of economically and socially dependent population than other cities. The problems are aggravated by the extensive controls on the city's ability to mobilize resources and to prioritize expenditures, which results in mismatch of expenditure assignments and revenue responsibilities. The most important determinant of this mismatch is that the system of intergovernmental transfers is not yet well developed to allow local authorities to effectively and reliably fund their social mandate. The inability to develop local government's taxation and fiscal expenditure authority will erode further the quality of social services and existing infrastructure.

Proposals for discussion. The city could improve the effectiveness and efficiency of urban services through: *i) prudent expenditure and asset management, ii) improved targeting of existing subsidy programs, iii) leveraging private investment in infrastructure through contracting out, lease or concession, while safeguarding the interests of low-income users, iv) active policy dialogue among relevant stakeholders, including the National Government, the Parliament, the Municipality of Sofia, and the Association of Municipalities to develop a consensual and comprehensive agenda for the reform of intergovernmental relations, and v) building institutional capacity.* In the longer run, the city's effective functioning requires a considerable increase in local autonomy, and correspondingly, accountability. However, in an economy that is now only a few years into recovery from a highly inflationary transition, it should be carefully assessed how much discretion the central government should be willing to surrender to lower levels of government, and how quickly it should do so.

The discussion on intergovernmental relationships needs to consider Sofia's growing responsibilities and the challenge of dealing with the high concentration of poor. However, this discussion should also recognize that these needs must be considered within Bulgaria's macroeconomic context. Ultimately, economic growth will reduce poverty in a sustainable way, and because Bulgaria has experienced such a turbulent transition, these broader economic concerns must be given greater weight than is the case in other transition economies that stabilized much earlier. Consequently, maintaining fiscal balance is essential for sustainable equitable growth. A draft paper, which represents the team's interpretation on the effects of current intergovernmental relations, is included as Annex 2 for feedback and comments from city officials.

C. Sofia's Socialist Spatial Legacy

Issues. As a result of almost 50 years of central planning and little to no governance that was responsive to local demands, Sofia has a spatial development pattern that is quite distinct from that of cities in market economies, and even from that of other cities in the region. It has, for example, more than four times as much land allocated to industrial land as typical cities in market economies do. While Sofia has close to 700,000

people living within 5 km from the center -- a number similar to Berlin, Budapest, London and Warsaw – the concentration of employment in the city center is much lower, thus weakening its economic potential. The dispersment of employment activities affects commuting patterns and contributes to high costs of public transportation. For a number of reasons discussed in the text, this pattern of investment in the fixed capital stock reduces the competitive advantages of the city, and its ability to attract investment and new businesses. Cumulatively, when both direct and indirect “costs” of working and living are added up, many investments in the city will be at a disadvantage. A considerable change in land use patterns must take place in the near future so that the city can lower these costs and improve the quality of life for its residents.

Proposals for discussion. Assisting this process of change is an essential determinant of how rapidly and smoothly this adjustment takes place. Bank experience indicates that in transition countries elimination of distortions embodied in master plans - - often designed without reference to market forces or the participation of affected parties -- is one of the most important issues in improving the efficiency of the urban spatial structure. Accordingly, considerable attention should be given to developing a democratic, interactive process that builds on the work of the city’s very competent Master Plan team and allows future directions for Sofia’s spatial development to be defined through public consultation with major stakeholders and local communities. This participatory process needs to refine priorities and actions that will: *i) improve the operation of real estate markets, ii) assist the redevelopment of the city center and iii) improve access to jobs in Sofia’s fragmented labor market.* Annex 3 details how the CDS process could help structure this work, as well as a proposed action plan for carrying out this activity.

III. The City Development Strategy: Next Steps.

To sum up, Sofia plays a clear and important role in the Bulgarian economy and its highly educated and relatively low wage labor force represents an enormous opportunity for growth for the entire country. However, due to the city’s historical legacy, further restructuring remains to be done. The city’s more intense industrialization under socialism not only created significant spatial distortions increasing the costs of doing business, but also contributed to a greater concentration of the poor in the city. Addressing these legacies must be an important part of the city’s strategy. At the same time, however, at this stage in Bulgaria’s macroeconomic transition the city’s ability to maneuver financially remains limited. As a result, the city itself has rather limited financial ability to provide adequate urban social services.

The CDS team has identified three major sets of challenges -- economic, financial and spatial -- that need to be addressed by further policy reforms and actions. The discussion process itself is also an important contribution to the strategy. We recommend that a public consultation be initiated along these lines with city officials, planners, representatives of the business community and Sofia’s residents, with the Bank serving as a facilitator. The consultation process could focus on the proposals for policy reforms identified in this report. These proposals address the major challenges for efficient and

equitable city development through: i) the creation of an incentive structure to encourage profitable, sustainable employment generation, ii) the liberalization of local regulations on zoning and density to encourage a more efficient distribution of economic activities across the city, as well as reduce commuting time, and iii) the improvement of intergovernmental relations so that the city can finance the substantial burden that social programs impose on local government.

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I. Introduction.

Why City Development Strategies? Cities are increasingly aware that they need to take a proactive role in making their local economy competitive and in improving the quality of life for all residents. Experience in developed countries indicates that local government economic and social development efforts are more successful if guided by a strategic process that includes the following elements: i) analysis of strengths and weaknesses, opportunities and threats affecting the city, ii) consensus-building on goals, priorities and actions among major stakeholders, and iii) formation of institutional alliances to carry out specific actions and programs in order to achieve sustainable results. To assist this process in cities in developing and transition economies, the World Bank and the United Nations Center for Human Settlements (Habitat) have launched the Cities Alliance, a broad partnership of bilateral and multilateral agencies committed to promote sustainable cities' development and poverty alleviation.

City Development Strategy for Sofia. Sofia City Development Strategy (CDS) is one of the city-led initiatives supported by the Cities Alliance. Its ultimate goal is to enhance the development of democratic and self-reliant municipal management system in Sofia in a manner that generates sustainable, long-term benefits for its residents. The team envisages the CDS as being guided by three main objectives: i) generating sustainable economic growth, ii) improving the efficiency and effectiveness of local governance, and iii) improving the quality and efficiency of the city's spatial structure. To succeed in each of these areas, there needs to be a common strategy that brings together the efforts of Sofia municipality, regional and central government agencies, and other key stakeholders to ensure complementarity and positive synergies. While the process of economic and social adjustment for Sofia might involve a series of incremental steps, it is essential to have a strategic vision that will set the direction for sustainable and equitable economic growth and define a set of policies and action plans to achieve it. In thinking about the role of local government in this process, one should recognize its leadership and ability to create new partnerships and strategic coalitions with the business community, non-government organizations and local politicians to address the challenges of poverty, unemployment, and growing social responsibilities.

Building Consensus on CDS Priorities. Policies that contribute to the achievement of these objectives and address the specific challenges faced by the city need to be identified in a collaborative way. The discussion process itself is also an important contribution to the strategy. Sofia needs to consider new approaches not only to respond to new pressures, but also to manage change in a proactive manner. Democratic participatory governance allows more efficient responses sensitive to the needs of local communities. It helps city officials to find the right balance between competing priorities and correspondingly to mobilize resources more efficiently. The process of public

consultation with key stakeholders is critical and will influence the choice of priorities, policies and actions to implement them. Various agencies and community groups representing the diverse interests of Sofia's residents should have an opportunity to influence the CDS and even more importantly, have an opportunity to deliver it.

The CDS process in Sofia is well underway, under able city management, and considerable progress has already been made. The World Bank through the Cities Alliance is assisting the development of this strategy based on its experience with other cities in transition economies. This experience suggests that it is important to focus the effort on a limited number of key objectives so that Sofia's CDS can be most effectively tailored to exploit the unique set of opportunities that the city has. This report attempts to identify a selected number of issues, which seem to be crucial in defining the future development path of the city. This is not an exhaustive list of issues, rather it is perceived as a way to initiate a constructive dialogue with city officials and other key stakeholders as part of the CDS process.

Report Structure. The Sofia City Development Strategy will develop into two stages - assessment of major development constraints and opportunities, and strategy for city development. The present draft assessment report is expected to trigger discussions on Sofia's development priorities with major stakeholders, and will frame the City Development Strategy. The draft assessment report outlines the constraints and opportunities that affect the city's development along the three major areas – economy, governance and planning. The assessment report presents major findings as well as proposed areas for adjustment and reform, while the technical discussions are grouped in three annexes at the end of the report.

II. The Constraints and Opportunities That Affect Sofia's Development Strategy.

In defining the key forces affecting the development of the city, it is important to consider its unique circumstances and historical legacy, and the way they shape the context for policy intervention and action. City's prospects are affected by factors both beyond and within its control. For example, national economic policies, largely beyond a city's control, always have a profound effect on cities. Similarly, cities' finances are, for a substantial part, dependent on a specific structure of intergovernmental relations that sets the framework for local autonomy. These rules, like the ones affecting the overall economy, are also largely beyond a city's control. However, a successful City Development Strategy should acknowledge all main constraints for development that would enable future efforts to address and adjust the problems. The factors that cities control in a more explicit manner are the spatial planning rules, and the general business environment regulations that determine how costly it is to innovate and to do business in a particular city. Thus, a city's strategy, particularly in a city such as Sofia that plays such a large role in the economy, can make important contributions to improving both the overall economic environment and the quality of intergovernmental relations. One area, where it can make its most significant contribution, is related to local regulations for

management of utilities, business licensing, and zoning by-laws. The intervention in that area can enhance Sofia's competitiveness and ability to attract investment, since the city still bears the heavy costs of a socialist spatial legacy.

What follows will highlight how Sofia's circumstances affect the formulation of strategic objectives, development priorities and policy actions.

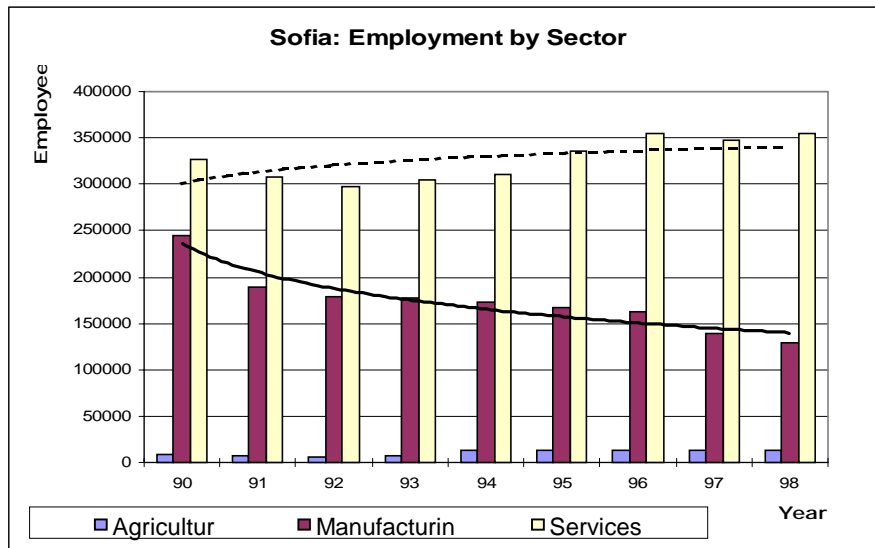
A. Sofia's Economy and Business Environment.

The Economic Legacy. Unlike other capital cities in the region, Sofia's economy appears to have followed a more intensive industrialized pattern of development. The rapid industrialization in 1960s and 1970s has led to a significant growth of Sofia's population and massive migration from rural areas. The expansion continued through the 1970s, but at a lower pace. The results of this pattern of development were twofold: i) extensive dependence of Sofia's economy on manufacturing and heavy industries and ii) reinforcing Sofia's position as the administrative and intellectual center of the country.

Privatization and Deindustrialization. Given its stronger ties to Former Soviet Union export markets, Sofia's economic adjustment was much more difficult. Privatization and economic diversification, associated with the transition from industrial to service oriented economy, have become the hallmark of this economic transformation. Privatization had a late start and progress across sectors has been uneven¹. The private sector in Sofia today employs 52% of the total labor force, which is a ten-fold increase compared to 1990. The most significant gains in private sector employment are in business services (90%) and retail and repair (82%). Sofia has experienced a much more significant growth in the share of service-based employment than most cities in transition economies. While the extent of this adjustment is related to macro-level policies, market integration, and the power of international capital, endogenous factors in the urban economy have played a significant role. In particular, land, existing industrial capacity, natural resources, and labor skills have defined the competitiveness of the local economy and its ability to attract new industries and economic activities.

¹ Sofia municipality has implemented an aggressive privatization policy. By the end of 1999, the Municipal Privatization Agency has finalized approximately 1,000 privatization deals for over US\$ 35 million. The public sector still retains a significant share in the generation and distribution of electricity, natural gas and water, in transportation and communications, education and healthcare. Only 45% of Sofia's manufacturing has been privatized.

Figure 1: The New Employment Mix



Source: Based on Ilieva M., Sofia Master Plan: Prognoza za Trudovata Zaetost, 1999

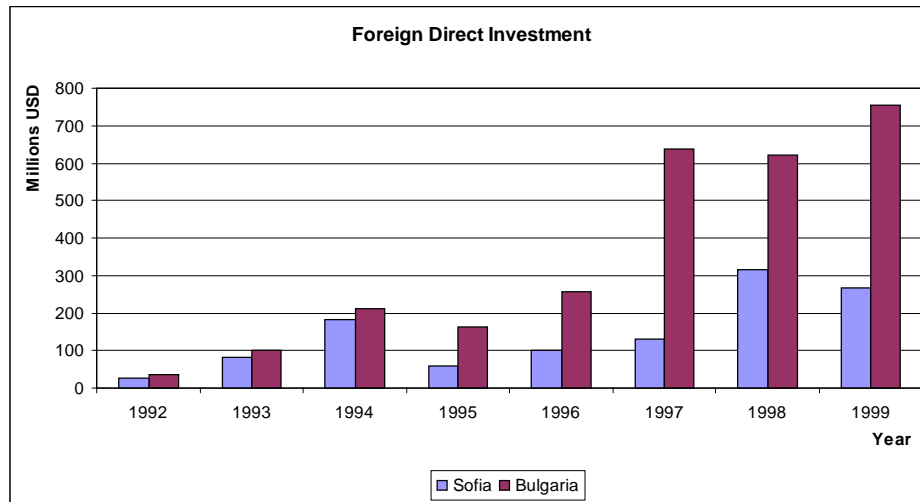
Figure 1 illustrates the extent of de-industrialization. Employment in manufacturing has declined from 42.2% of total employment in 1990 to 25.9% in 1998. Meanwhile employment in services has increased from 56.2% of total employment to 71.4% providing jobs to 357,000 people. Manufacturing -- specifically the production of ferrous metals, machinery, food and beverages -- continues to be a vital force in the local economy. Sofia still bears the mark of socialist industrialization policies, which is reflected in its relative dependence on large state-owned enterprises. At present large employers account for 2% of the companies, but employ 50% of the labour force. Further restructuring and privatization of these entities might lead to the loss of value-added jobs and higher unemployment.

The Driving Forces of Economic Growth. Despite the uneven progress in economic performance across different sectors, growth prospects are encouraging. Sofia continues to maintain a dominant position in the national economy. The city has less than 1% of the national territory, but is home to 1/7 of the Bulgarian population and to 1/6 of its labour force. It has a higher per capita income than the rest of the country, and contributes close to 20% to the national GDP. Although its GDP growth in 1999 is well above the expected pace for the Bulgarian economy as a whole, previous volatility due to macroeconomic and political instability has made economic recovery much more challenging.

The city remains the dominant financial, insurance and banking center for the country. The growth in *business services* in Sofia is associated with nationally significant export and import activities, increasing real estate transactions and the presence of major domestic and international company headquarters. *Distributive services* -- retail, warehousing, transport, communications and tourism -- are the fastest growing industries, although they generate relatively low value-added jobs. Reportedly, the highest

employment growth in 1999 is observed in distribution services (13%) and in business services (6%)².

Figure 2: Foreign Direct Investment in Sofia and Bulgaria



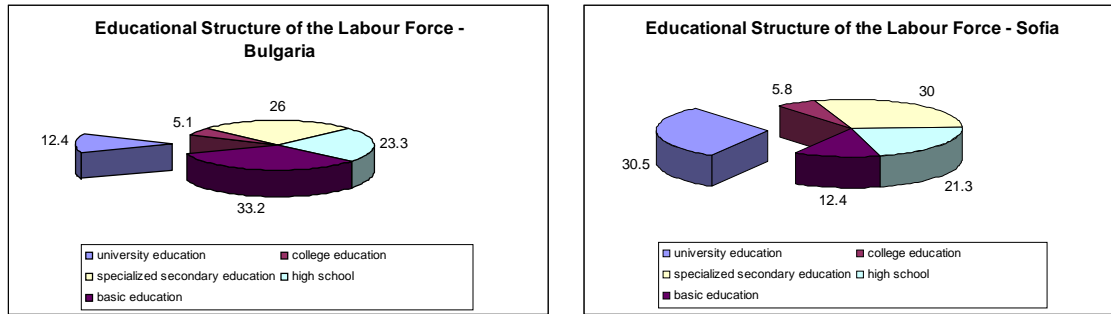
Source: Foreign Investment Agency, Sofia , November 2000

Sofia did attract almost 85% of the initial *foreign direct investment* (FDI) in Bulgaria until 1994 (Figure 2). Following the 1997 economic crisis, inflows nearly tripled due to progress in large-scale privatization and macroeconomic stability. Furthermore, relatively favourable investment climate, prospects for EU accession and bank privatization did lead to sustained level of FDI in 1999. The cumulative pattern of investment between 1992-1998 in Sofia indicates that the retail sector did attract the highest share of FDI --32%, followed by finance with 21% and manufacturing with 12.5%.

The city's greatest asset is its *well educated labour force*. The competitiveness of Sofia's economy is determined to a large extent by the skills of its workforce, and the city's ability to attract new businesses as well as to nurture existing ones. Sofia has a tradition of excellence in education and research. The share of people with university education is 2.5 times the national average, the share of people with specialized secondary education is also considerably higher (Figure 3). Research indicates that the level of education is a significant factor that affects economic activity in the labour market – economic activity is as high as 72.7% for those with university degree and as low as 23.6% for people with primary or lower education. In the future, the survival and growth of many businesses will depend on the supply of knowledge workers – people with good education and ability to learn new skills. Sofia can capitalize on its human capital, which can become a major source of indigenous economic growth.

² For a detailed discussion on labour market adjustments, unemployment and income polarization refer to Annex 1.

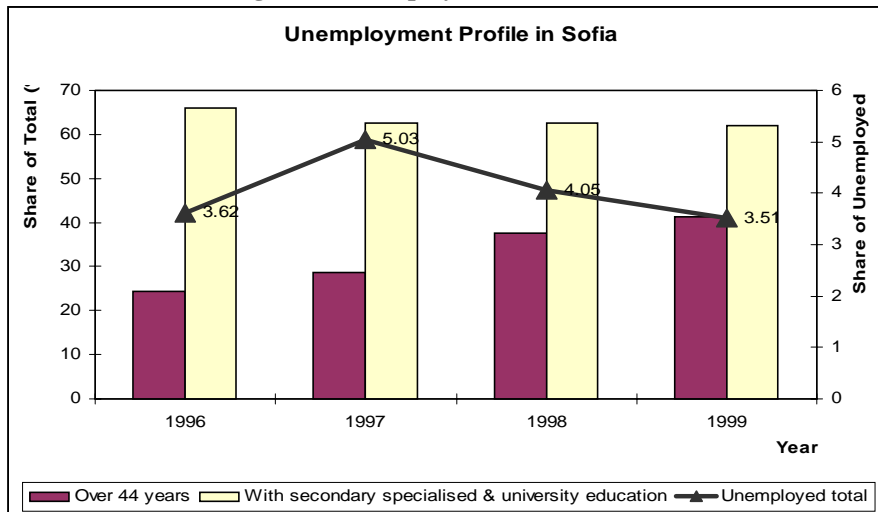
Figure 3: Sofia's Human Capital



Source: Regional Plan for Sofia Oblast, Sofia August 2000.

Labour Market Adjustment. In response to structural and macroeconomic pressures labour market adjustment in Sofia, as in most cities in transition economies, has proceeded through fluctuations in unemployment and wage differentiation. *Unemployment* in Sofia has dropped significantly from a high of almost 15% in 1993 to 3.5% in 1999, which is 4 times lower than the national average³. However, the unofficial unemployment might be higher than the reported percentage. The new economy places a premium on specialized skills and higher educational qualifications, particularly in the financial and business services, and offers fewer opportunities in the lower skilled manufacturing occupations. This leaves many who are unskilled or overqualified, particularly in areas of low occupational demand, competing in a tough labour market. Sofia's unemployment profile shows a surprisingly stable share of people with secondary specialized and university education (Figure 4). Furthermore, ongoing cuts to public sector employment may explain the rising unemployment for people in the age group of over 44, who account for 40% of the unemployed.

Figure 4: Unemployment, 1996-1999



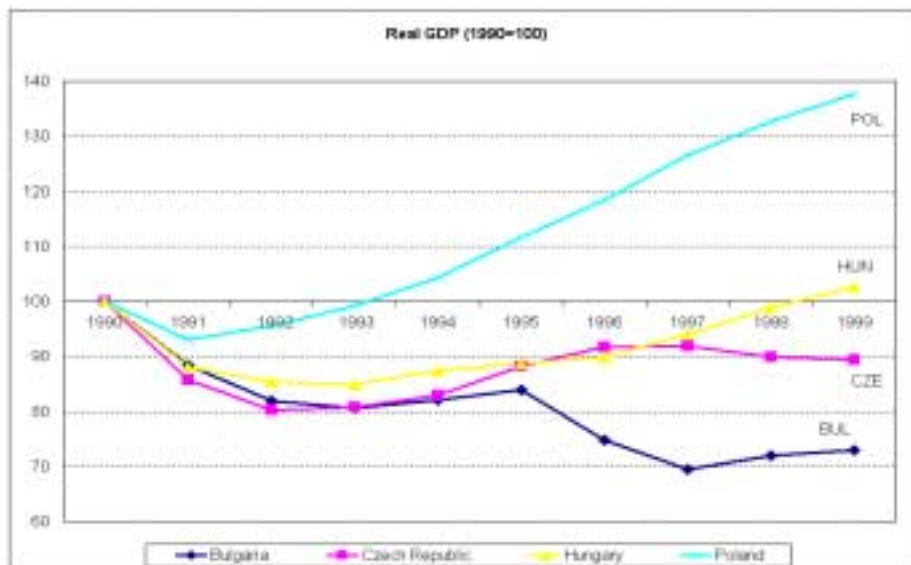
Source: NSI, Sofia CDS background information, November 2000.

³ The start of the transition to a market-based economy in Sofia was marked by a sharp contraction in employment. Although private sector employment has grown steadily since 1992 with annual rates ranging between 10-40%, it has not been able to offset the loss of 120,000 value-added manufacturing jobs.

It should be noted that since the 1997 economic crisis, growing productivity in Sofia's economy has resulted in moderate income growth⁴. However, these broader developments need to be evaluated against the background of *rising income inequality* and large increases in *poverty*. Wages in different sectors have become more differentiated with a ratio of approximately 1:3 between salaries in health care and communal services and those in finance and energy production⁵. This is a radical departure from the previously egalitarian income distribution under state socialism. In 1999, for example, the differences between the average pension and the salaries in finance, banking and insurance was 1:6. These income inequalities underpin a new system of social stratification with much more pronounced differences between the rich and the poor than is the case in most CEE countries. In 1997 Sofia had one of the highest poverty rates in Bulgaria, with close to 412,000 people living below the poverty line.

Sofia in the National and European Context. Bulgaria had a late start as far as economic and political reforms are concerned, and has only recently emerged from a deep economic crisis. Its recovery really began only in 1997 in contrast to more advanced reformers in the region where it began 3 to 5 years earlier.

Figure 5: Real GDP Growth in Transition Economies, 1990-1999



Source: World Bank. World Bank Development Indicators Database.

As the GDP data in Figure 5 indicate, the Bulgarian economy has experienced a prolonged recession and has the worst performance compared to the Hungarian or the Polish one. Recent GDP growth has been sluggish and is still close to 70% of the pre-reform levels. In addition, the measures of foreign direct investment suggest that despite

⁴ The average monthly income in 1999 was BGN 129.

⁵ Annual wages in energy production enterprises tend to be the highest – 4,871 BGN, followed by those in banking and finance and in the production of steel and equipment – 4,400 BGN. In the private sector wages in banking and finance are at the top of the list – 4,371 BGN, followed by education and real estate (NSI, 2000).

recent stabilization, the economy is constrained by lack of investors' confidence, as well as by the lack of a well-functioning banking sector. Furthermore, Bulgaria does not receive the level of assistance from the EU designated for countries in the first wave of accession. As a result, the economic and social adjustment for Sofia is necessarily going to be harder and in many ways beyond the control of city officials. Nevertheless, given the city's important role in the overall economy, policies at the city level can also play a significant role in sustaining the transition.

Moving from Concept to Practice: Defining the Economic Development Agenda.

In the economic realm Sofia's challenge and opportunity is to create a climate, which fosters the restructuring and modernization of the economy and contributes to sustainable and equitable growth. It is the financial and intellectual capital of the country and has low cost, highly educated population. The rapid decline in industrial activity and rise in financial and business services has created a two-speed economy with a complex pattern of labour market inequality. While it is essential to accelerate advances in services and high-tech industries to reinforce Sofia's position as the leading financial and business center, the city also needs to maintain a healthy mix of industries to ensure that it capitalizes on existing manufacturing potential and competes on a broader front.

Defining the economic development agenda requires work on two levels. First, a consultation with key stakeholders in the local community can be instrumental in defining the way to proceed. The consultation needs to elicit responses along two lines: i) the most important issues constraining or assisting local business development, ii) the most important reforms required to improve the business environment. Second, there is also a need for discussions on the appropriate role of local and central government to facilitate this process. The latter discussion can generate strategic partnerships and programs that will provide an important contribution to the city's ability to attract investment and to generate private sector growth.

Accordingly, we recommend that the business community, Sofia's municipal officials, and representatives of non-government organizations begin a dialogue which could explore opportunities to improve the economic environment of the city through: i) *attracting and retaining businesses effectively* with policies that target growth sectors; ii) *investing in human capital*, including support for employment retraining, iii) *improving competitiveness* by marketing the city internationally, removing barriers for investment and coordinating economic development initiatives, and iv) *investing in infrastructure*.

- **Attracting and retaining businesses.** It is important for Sofia to focus on growth opportunities that offer the highest leverage. This means focusing on businesses that are part of strategic clusters. The agenda might include: i) focusing on strengths (finance, banking, retail); ii) fostering new clusters (high-tech, publishing); iii) supporting SMEs; iv) support for business incubators and business parks.
- **Investing in human capital.** Sofia has a tradition of excellence in education and research. Its human capital is a major source of indigenous economic growth. While

the city can capitalize on this potential, two issues require immediate policy attention: i) addressing the ‘skills gap’ (retraining, new skills development) and ii) alleviating poverty (improving access to jobs in the formal economy).

- **Improving competitiveness.** It is imperative that new policies are pursued to strengthen the private sector and attract foreign investment in the local economy. Several issues need immediate attention: i) elimination of regulatory barriers for private sector involvement, and ii) simplification of city licensing procedures.
- **Investing in infrastructure.** In view of competing priorities for public funds and growing needs for investment in infrastructure, the municipality needs to consider the following: i) privatization and commercialization of urban services through contracting out, lease or concession, while safeguarding the interests of low-income users; and ii) mobilization of foreign and private capital for investment in infrastructure to address deficiencies in service quality.

Detailed analysis and evaluation of major economic trends and processes of economic and social change, as well as related policy recommendations are presented in Annex 1.

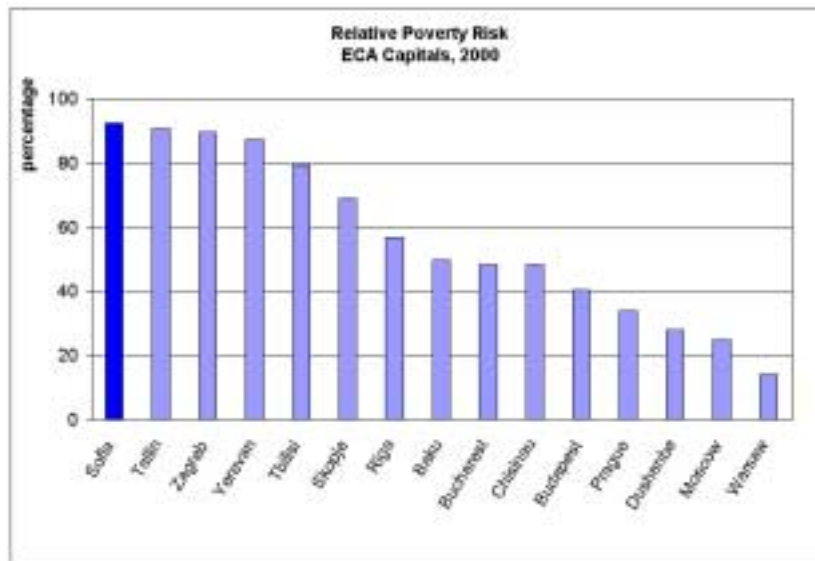
B. Social Needs and Institutional Constraints on the City’s Ability to Function.

Growing responsibilities. Sofia municipality is the principal institution responsible for urban planning and management. In addition, it retains the statutory responsibility for the provision and maintenance of technical infrastructure and urban social services. The city has acquired ownership of the fixed assets of water and sewerage companies, district central heating systems and public housing. However, inflation and restructuring of subsidies have raised the cost of urban services dramatically. Running schools, hospitals, social care homes and other social facilities has contributed to high shares of public expenditure. Pricing of these services to reach cost recovery has not been a popular political choice, particularly given the relatively low income per capita in Sofia and the high economic dependency ratio. In the long run the under-pricing of water, transport, and heating contributes to inefficient consumption of those services and affects the investment in maintenance and rehabilitation of existing networks.

Social Service Provision and Poverty. Since the start of the transition, the social sectors were formally decentralized and local governments became responsible for the provision and financing of education, health care and social assistance. Regardless of the decentralization effort, most of the real authority on decisions in these sectors remains within the competencies of the central government. The delivery of social services creates a number of problems, most notably difficulties in matching expenditure assignments and revenue responsibilities. With extensive responsibilities for education, health care and social assistance, Sofia municipality is under a lot of pressure to cope with high social

costs due to higher percentage of socially dependant population⁶.

Figure 6: The Rate of Poverty in the City Versus the Entire Country



Note: Poverty is measured as the % of households whose expenditure is below 1/2 of median household expenditure in the country.

Source: World Bank. Making Transition Work for Everyone. Poverty and Inequality in Europe and Central Asia.

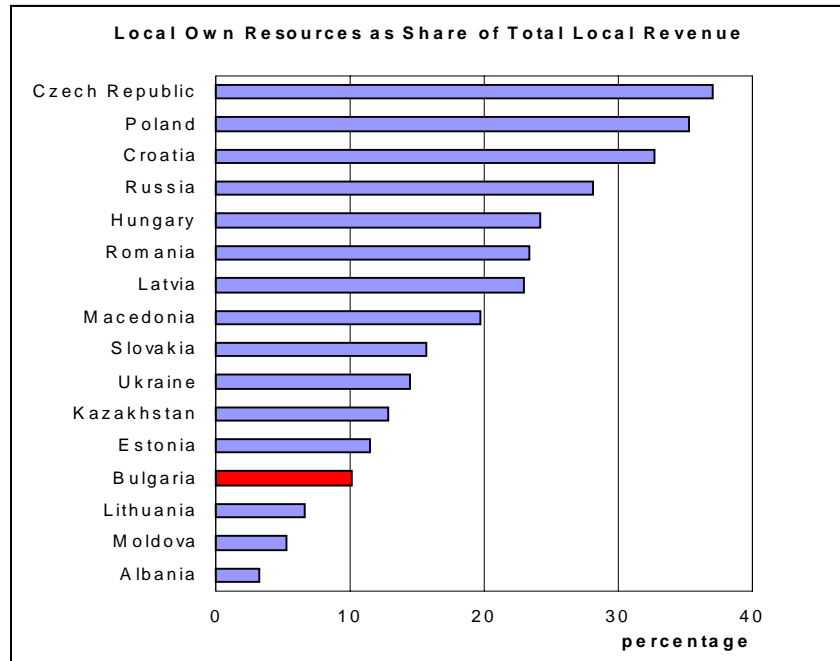
As Figure 6 shows, Sofia has a more intensive concentration of poor people than any other major city in the region. Indeed, the likelihood that a resident of Sofia is poor is only slightly lower than is the likelihood of being poor anywhere in the country. About one person in three is poor no matter whether they live in Sofia or elsewhere in Bulgaria. This distribution is far different from the situation in other capital cities, even in countries with lower per capita incomes. In those capital cities the residents are about half as likely to be poor as are other citizens in the country. Sofia municipality needs to recognize and understand how this large concentration of the poor affects the city's opportunities and social responsibilities. It is important that these programs are carefully balanced against the need for overall macroeconomic and fiscal stability.

Limited local autonomy. The existing intergovernmental relations further aggravate the ability of the municipality to respond to local social needs by the extensive controls on the city's ability to prioritize expenditures and mobilize resources. On the expenditure side, the municipality has full authority on about 20% of its total expenditures, of which about 95% are for maintenance costs. The arrangement limits the ability of the municipality to allocate resources according to local needs. The annual Budget Laws further prioritize spending by setting priorities that should be met first creating a sequence of payments that has to be followed by the city. Capital investments

⁶ A key indicator of the economic potential in any city is the "economic dependency" ratio, which in Sofia is as high as 27%.

are also limited as the municipality is not allowed to spend own resources⁷ other than net savings, or revenues from municipal property sales on capital investments. Although Sofia's capital expenditures accounted for as high as 23% of the total local government expenditures in 1998⁸, which is 10% above the national average the limitation on municipal capital investments restricts local medium and long term planning.

Figure 7: Local Own Revenue as Share of Total Local Revenue (1997-1998)



Note: Own revenue excludes shared taxes, and taxes which local governments do not have complete authority to determine.

Source: Own Calculations: World Bank, 2000.

Local government revenue from own sources is 10% of the total⁹ -- almost three times lower compared to revenues generated in the Czech Republic and Poland (Figure 7). The reason for that is that the base and rate of all *local* taxes as well as a range of *local* fees is set by national legislation, and the taxes and fees are collected by the central administration. The municipality has full authority to set only the solid waste fee and the fees for the sale of municipal property. The limited local revenue authority constraints efficient local planning and management as well as tends to decrease accountability as the delivery of a service by the municipality cannot be associated with its fee assigned at a national level. Further on, the process and criteria for allocating the transfer subsidy amounts among the municipalities are not transparent enough and are subject to frequent changes. This creates unpredictability at the local level regarding the available future resources, and hinders medium and long-term planning.

⁷ The Ministry of Finance classification includes the shared taxes as part of the own resources.

⁸ The figure includes: (i) long term fixed assets (ii) capital repairs, and (iii) current assets. In 1999 the shares account for 88%, 11%, and 1% respectively

⁹ For the purpose of this report, transfers are considered to include: subsidies (general and targeted), shared taxes, and local taxes (the local taxes are set by national legislation in terms of type, base, and rate, and are collected by the central administration; they are considered by international terminology – earmarked national transfers).

The City of Sofia is among the few municipalities in Bulgaria that has successfully borrowed funds independently from the Central Government. The City has also issued the only Eurobond so far in Bulgaria. One of the loans however (Road rehabilitation and repair, 1998) is for cash management purposes and used as collateral public facility. It should be stressed that municipal borrowing should take place only for long-term capital investment purposes in order to be consistent with sound municipal financial management.

Moving from Concept to Practice: Improving Governance.

In the short run, *the city could improve the effectiveness and efficiency of urban services through:* i) *prudent expenditure and asset management,* ii) *improved targeting of existing subsidy programs,* iii) *leveraging private investment in infrastructure through contracting out, lease or concession, while safeguarding the interests of low-income users,* iv) *active policy dialogue among relevant stakeholders, including the National Government, the Parliament, the Municipality of Sofia, and the Association of Municipalities to develop a consensual and comprehensive agenda for the reform of intergovernmental relations,* and v) *building institutional capacity.* In the longer run, the city's effective functioning requires a considerable increase in local autonomy, and correspondingly, accountability. However, in an economy that is now only a few years into recovery from a highly inflationary transition, it should be carefully assessed how much discretion the central government should be willing to surrender to lower levels of government, and how quickly it should do so.

The discussion on intergovernmental relationships needs to consider Sofia's growing responsibilities, while dealing with large concentration of poverty. However, this discussion should also recognize that these needs must be considered within Bulgaria's macroeconomic context. Ultimately, economic growth will reduce poverty in a sustainable way, and because Bulgaria has experienced such a turbulent transition, these broader economic concerns must be given greater weight than is the case in other transition economies that stabilized much earlier. Consequently, maintaining fiscal balance is essential for sustainable equitable growth.

The challenges for Sofia's local government are to improve the delivery of urban services in a strategic and coordinated fashion. Within this context, the discussion needs to focus on two levels. First, are there any possible efficiency gains that can be realized from better management of existing resources? Second, what type of intergovernmental relations would improve local governance and assist the development of a more efficient safety net? Increasing the effectiveness and efficiency of urban services, reducing transaction costs for private sector development and promoting a good business environment are among the most important contributions that Sofia municipality could make to achieve sustainable development for the city and to boost investments. Several issues are considered a priority:

- **Staying fiscally sound.** In view of growing responsibilities and fiscal pressures, it is

important that new policies are pursued to: i) improve targeting and coverage of socially dependant population, ii) improve asset management and iii) utilize existing infrastructure capacity and leverage private investment in the provision of urban services. Sofia municipality cannot afford to waste existing infrastructure, nor can it afford the prohibitive costs of poorly targeted subsidies.

- **Fiscal decentralization.** Further governance reforms need to be placed in the context of new and improved framework on intergovernmental relations. The reforms needs to focus on a clear distribution of expenditure responsibilities; sound distribution of taxation powers; and complementary rules for sub-national borrowing. Further, the reform needs to be fiscally neutral, and territorially/socially balanced.
- **Building institutional capacity.** To ensure that these functions are carried out efficiently, the capacity of the municipal government should be strengthened in the following priority areas: i) urban management, ii) policy coordination, and iii) evaluation and monitoring.

Detailed analysis of challenges and opportunities with respect to fiscal decentralization and local governance reforms is included as Annex 2 for comments and suggestions from city officials to ensure that Sofia's CDS priorities are adequately reflected.

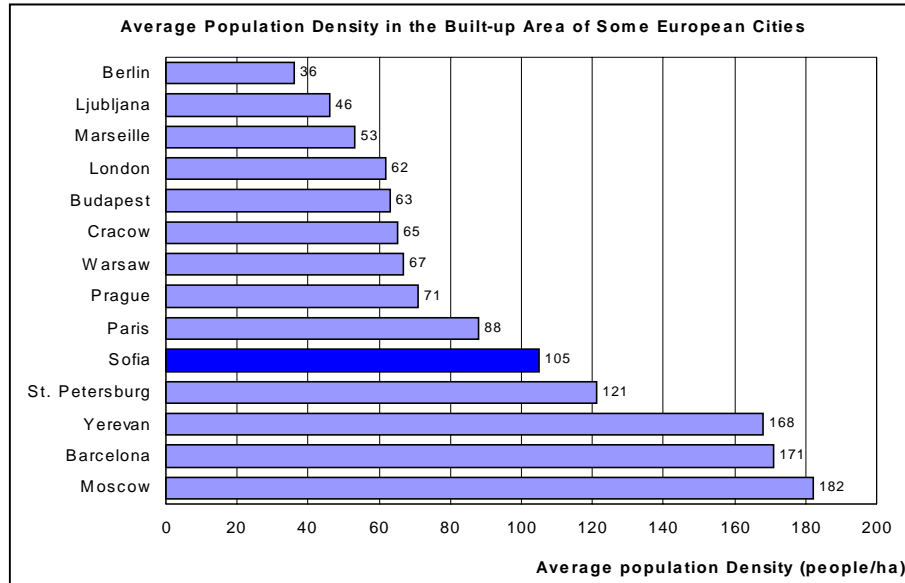
C. Sofia's Socialist Spatial Legacy.

Socialist Urban Development. The unlimited power of the State over the last 50 years in Sofia to purchase land and properties, to act as a developer of housing and social infrastructure, and its exclusive control over investment decisions has created a Soviet type of planned city with high population densities in the periphery, and excessively high share of industrial land. Over the years, the level of intervention and the commitment on behalf of the State was different, but in general urban development in Sofia was exclusively promoted, implemented and managed by the public sector. Earmarking of resources for large scale developments did benefit the city in a number of ways: i) relatively high investment in public buildings and administrative complexes, ii) investment in cultural and recreation facilities of national importance, iii) massive construction of prefabricated housing, which during the 1980s reached 12,000 units per year. However, this kind of centralism, given the limits on State resources for urban investment, contributed towards disparities within Sofia's urban structure. Neglected inner city neighbourhoods suffered from chronic under investment. Plans for the redevelopment of these areas (e.g. Pirotaska, Zenski pazar) were constantly delayed due to the fragmented nature of land ownership and the complexities of infill development. Despite efforts to improve the quality and the supply of urban infrastructure, there were constant shortages of public finance to support the rehabilitation of water supply networks, sewerage and central heating systems. Rapid population growth made these tasks much more challenging.

Spatial Structure. This planned urban development without markets has lead to

inefficiencies and distortions in the consumption and allocation of land. Sofia has a spatial development pattern that is quite distinct from the one of cities in market economies, and even from that of other cities in the region.

Figure 8: Comparison of Average Population Densities



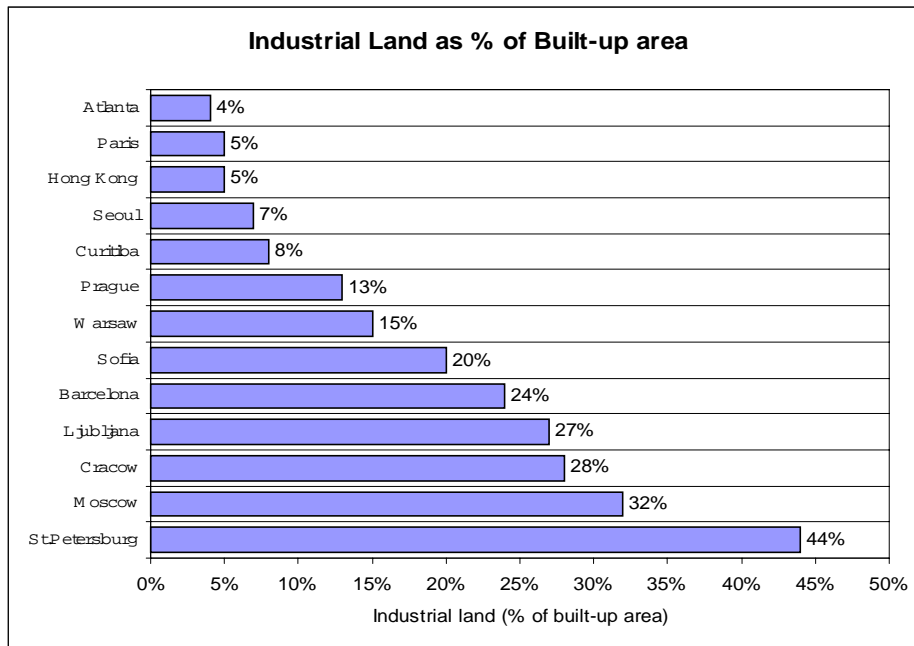
The average density of the population -- 105 people per ha -- indicates that the great majority of Sofia's residents live in high-density neighborhoods (Figure 8). While Sofia is among the densest cities in Europe, it is not very compact for its size. This is due to the dispersion of high density residential land uses to the periphery – a direct outcome of socialist housing provision policies¹⁰. Further, industrial uses take 27% of the built-up area, which 3-4 times higher compared to other European cities (Figure 9). In addition, 34% of the industrial land is located close to the city center thus weakening its economic potential.

Inefficient Real Estate Markets. Sofia has about 700,000 people living within 5 km from the city center, a number similar to Berlin, Budapest, London, and Warsaw. While the city center is well served by public transport, it is the final destination of only 18% of all work trips. This suggests that land is underutilized and employment dispersed. The functioning of businesses has been affected by the lack of appropriate office and parking space in the city centre. In recent years there has been a sharp increase in the area occupied by cars parked in the central area. At the same time, the lack of parking fees along city streets and on sidewalks effectively constitutes a subsidy to private car use, which discourages private solutions for off street parking. The result is a constraint to the development of a more efficient land market and the utilization of existing infrastructure capacities.

¹⁰ The pockets of very high densities in the large high-rise residential areas of the North West (above 400 people/hectare) and South West (up to 500 p/ha) contribute to the dispersion of the population. The average distance per person to the center is 4.4 km. With a built-up area of 107 km², this results in a dispersion index of 1.15, which is relatively high for a European city.

There is some anecdotal evidence that the difficulties involved in redeveloping land in the center city contribute to push business activities toward the periphery. Land ownership patterns might be an obstacle to the functioning of real estate markets due to uncertain land titles and/or excessively high share of government owned land. The private sector is more likely to use land at its highest and best use, thus generating a flow of business and property taxes. Cumulatively, these problems associated with inefficient land uses in the city center, lack of office and parking space, as well as regulatory constraints on redevelopment can distort the value of land and real estate.

Figure 9: Industrial Land in Cities



Labor Market Distortions and Transport. For more than 50 years Sofia's development did not rely on prices to guide the investments in the fixed capital stock that were made. As a direct result, the city now faces a fragmented labor market that is extended over a much larger, less accessible city. For example, the median amount of time to work by public transport is 30 minutes, which is longer than is the case in other cities of similar population sizes. This is due to population dispersion, but also to possible inefficiencies in the operation of public transport. Given the difficulties involved in changing housing locations and higher economic costs of longer commutes, the immediate effect of this labour market fragmentation is to increase the inefficiencies in the local economy. The population dispersion also creates financial problems for the city. In particular, higher demand for infrastructure and transportation to service a larger geographical area increases the cost of providing urban services. Unless adjustments are made in the near term problems with transportation and congestion in the city will almost certainly intensify, making the sustainability of existing urban transport investments increasingly problematic.

Deteriorating Housing Stock. Close to 87% of the housing stock in Sofia is

privately owned. The poor quality of residential areas, particularly the ones with panel high-rise development is a major problem. Almost two-thirds of Sofia's residents live in panel housing. This pattern of development was the flagship of socialist housing policies. Built by state enterprises and allocated in accordance with socialist principles of housing need, the stock has poor quality and low energy efficiency. A major constraint to the redevelopment of these areas is the lack of mortgage financing, inefficient legal framework for condominium management and lack of organizational capacity to deal with technical and financial problems. The improvement of these areas needs to be encouraged. Sofia municipality has initiated pilot projects in Mladost and Nadezda. The Bank is working on similar projects in a number of countries with lessons that might be usefully transferred to Sofia.

Moving from Concept to Practice: Public Discussion of the City's Spatial Objectives.

Indeed, the pattern of investment in the fixed capital stock during socialism reduces the competitive advantages of the city and its ability to attract investment and new businesses. As Sofia begins to internalize the changes implied by the transition from a centrally planned city unresponsive to individual demands to one that helps its residents and businesses exploit economic opportunities, a considerable change in land use patterns must take place in the near future. Assisting this process of change by adjusting the zoning regulations and the city's Master Plan is an essential determinant of how rapidly and smoothly this transition takes place. Further, the participation of affected parties in the planning process establishes a framework for a more efficient and responsive planning that will improve the efficiency of the urban spatial structure. Accordingly, we recommend that considerable attention be given to developing a democratic, interactive process that builds on the work of the Master Plan team and allows future directions for Sofia's spatial development to be defined through public consultation with major stakeholders and local communities. *This participatory process needs to refine priorities and actions that will: i) improve the operation of real estate markets, ii) assist the redevelopment of the city center and iii) improve access to jobs in Sofia's fragmented labour market.*

The CDS team has identified the following challenges that need to be addressed within the framework of Sofia's CDS:

- **Improving the functioning of real estate markets.** To make Sofia economically competitive with other capitals of Europe, the government needs to facilitate the efficient operation of real estate markets through adequate land use regulations and efficient transfer procedures. The real estate strategy should streamline: (i) the property registration process and the (ii) the building permit and land subdivision and assembly process.
- **Increasing the vitality and attractiveness of the city center.** Sofia municipality needs to undertake specific actions such as policies that deal with parking, as well as policies that focus on revitalization and intensification of the city center and facilitate

the provision of office and retail space.

- **Maximizing access to employment opportunities for Sofia residents.** Better and more efficient public transport can reduce commuting time and counteract the existing spatial fragmentation in Sofia's labour market.
- **Investing in housing rehabilitation.** Policies that target the improvement of the existing housing stock need to receive priority. The first step is to explore technical, financial and organizational alternatives to carry out maintenance and energy retrofits. The second step is to examine the economic feasibility of improving panel housing in selected areas through pilot projects.
- **Protecting Sofia's cultural resources and environment.** Specific attention is needed to assist the implementation of existing plans on cultural and environmental protection. Of particular importance are systems that deal with legal, financial and institutional processes to protect mineral water springs, the urban forest and the natural habitat in the periphery of the city.

In Annex 3 we detail how this work could be initiated and propose an action plan for different activities.

III. The City Development Strategy: Challenges and Priority Actions.

To sum up, Sofia plays an important role in the Bulgarian economy and its highly educated and relatively low wage labor force represents an enormous opportunity for growth for the entire country. However, due to the city's historical legacy, and the challenges of its economic and social transition, a number of constraints affect its ability to become an effective springboard for economic growth. The CDS team sees two fundamental challenges for the long-term process of city development: i) Sofia needs to become more competitive and to improve the environment for private investment in order to generate new employment, and ii) Sofia, despite being rather successful, still has major pockets of poverty. In the context of these two overriding challenges, we identify three areas that we believe would make a major contribution to the improvement of the business environment and the reduction of poverty. These are policy reforms that contribute to: i) the sustainable economic growth and private sector development, ii) the improvement of social and infrastructure services that assist the integration of the poor, and iii) the development of a more efficient spatial structure.

As part of the development of the CDS, a consultative process will be carried out with city officials, planners, and selected representatives of Sofia's business community to review the major challenges and priorities for action summarized in Table 1. Since an effective strategy requires clearly identified vision and priorities to achieve longer term goals, it is essential to have a consensus on the basic premises that underlie the CDS and a common understanding on its. This process could be initiated through a workshop expected to take place in April 2001. Other workshops will follow to seek views from various stakeholders. The final CDS is expected to be prepared by December 2001.

Table 1: SOFIA CITY DEVELOPMENT STRATEGY

GOAL: TO ENHANCE THE DEVELOPMENT OF DEMOCRATIC AND SELF-RELIANT MUNICIPAL MANAGEMENT SYSTEM IN SOFIA IN A MANNER THAT GENERATES SUSTAINABLE, LONG-TERM BENEFITS FOR ITS RESIDENTS.	
CHALLENGES	PRIORITY ACTIONS
OBJECTIVE 1: GENERATE SUSTAINABLE ECONOMIC GROWTH	
1. The process of economic growth in Sofia is constrained by delayed privatization and dependence on low value added manufacturing sectors.	<p>Concentrate efforts on diversifying the local economy and on attracting and retaining businesses effectively with policies that target growth sectors. The municipality is advised to work in partnerships with National Government agencies, business organizations and non-profit institutions to facilitate action in the following strategic areas:</p> <ul style="list-style-type: none"> ❑ <i>Focus on strengths.</i> Undertake cluster analysis and develop effective programs for business support for sectors of growth; ❑ <i>Foster new clusters.</i> Encourage a research-industrial focus by providing incentives for universities and other research institutions to generate multiplier effects; ❑ <i>Support SMEs.</i> Foster business start-ups through legal advice, training, “one-stop shops” for information, licensing transaction, access to business premises, etc.
2. Sofia has a stagnant labour market, problems with long-term unemployment and growing poverty.	<p>Improve access to jobs and employment in the formal economy through investment in human capital, including support for employment retraining and new skills development for knowledge-intensive production and service sectors. Economic growth will remain the most important factor in reducing poverty in the city. The municipality needs to work in partnerships with National Government agencies, business organizations and non-profit institutions to ensure that appropriate programs tailored to local needs exist to:</p> <ul style="list-style-type: none"> ❑ <i>Address the ‘skills gap’</i> through support and training to unemployed workers to assist development of entrepreneurial skills; ❑ <i>Alleviate poverty</i> through initiatives that encourage higher work participation, help the working poor earn more in formal activities, and reduce unemployment.
3. There is little coordination in various policies that affect business performance and local economic development. Many private investment incentives remain weak.	<p>Improve competitiveness by marketing the city internationally, removing barriers for investment and coordinating economic development initiatives. Several issues need immediate attention:</p> <ul style="list-style-type: none"> ❑ Elimination of regulatory barriers; ❑ Simplification of city licensing procedures; ❑ Privatization and commercialization of urban services through contracting out, lease or concession, while safeguarding the interests of low-income users and protecting environmental quality; ❑ Mobilization of foreign and private capital for investment in infrastructure to address deficiencies in service quality and non-compliance with EU standards.
4. Sofia municipality lacks an institutional mechanism to assess & monitor economic development.	<p>Leadership. The success of the initiatives discussed above requires the active leadership of an entrepreneurial local government that works in partnership with the Chamber of Commerce, the business community, research institutes and non-government organizations. The municipality is advised to establish a consultative group led by the Mayor to define specific measures that:</p> <ul style="list-style-type: none"> ❑ Enhance local economic infrastructure; Facilitate partnerships with the private sector.

OBJECTIVE 2: IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT	
1. Sofia infrastructure investment needs exceed the financial capabilities of the municipality. It also faces capital investment restrictions which do not allow efficient planning of investment in infrastructure.	In view of growing responsibilities and fiscal pressures, it is important that the municipality pursues new policies to: <ul style="list-style-type: none"> <input type="checkbox"/> Improve asset management; <input type="checkbox"/> Utilize existing infrastructure capacity; <input type="checkbox"/> Leverage private investment in the provision of infrastructure. <input type="checkbox"/> Initiate a dialogue with the Association of Municipalities, the National Government, the Parliament and other relevant stakeholders to allow local governments enough authority to set the amount of resources they wish to allocate to capital investment.
2. The municipality has extensive responsibilities for education, health care and social assistance and lack of adequate resources to carry out its mandate.	The municipality is advised to: <ul style="list-style-type: none"> <input type="checkbox"/> Review assigned functions for all sectors, indicating the degree of decentralization and possible overlapping responsibilities, indicate the resources needed to undertake local tasks without leaving unfunded mandates, as well as the revenue sources currently available to meet the costs; <input type="checkbox"/> Improve targeting and coverage of social assistance to socially dependant population; <input type="checkbox"/> Review the system of income-tested subsidies to ensure that they are well targeted and benefit the poor; <input type="checkbox"/> Engage in a dialogue with the Association of Municipalities (AM), the National Government, and other relevant stakeholders to address the problem of unclear division of responsibilities, unfunded mandates and poverty.
3. Sofia municipality has limited local administrative autonomy, weak taxation and fiscal expenditure authority.	The municipality may wish to: <ul style="list-style-type: none"> <input type="checkbox"/> Review assigned functions for all sectors, indicating the degree of autonomy with respect to: hiring staff, salaries, and resource allocation authority; <input type="checkbox"/> Initiate a dialogue with AM, the National Government, and other relevant stakeholders to develop a reform of the tax system seeking to enhance local taxation powers with neutral fiscal effects, as well as to improve municipal administrative authority.
4. Complicated, non-transparent subsidies.	Engage in a dialogue with the AM, the National Government, and other relevant stakeholders to simplify and streamline the transfer system , and to coordinate it with the tax reform.
5. Capacity constraints at local level.	The municipality of Sofia needs to strengthen the capacity of the municipal administration in the following priority areas: <ul style="list-style-type: none"> <input type="checkbox"/> Urban management; <input type="checkbox"/> Policy coordination; <input type="checkbox"/> Program monitoring & evaluation.

OBJECTIVE 3: ENHANCE THE QUALITY AND THE EFFICIENCY OF SOFIA'S SPATIAL STRUCTURE	
1. Sofia's real estate market is still inefficient. Land in the city center is underutilized and employment is dispersed, weakening the economic role of the city center.	<p>To enhance the efficiency of real estate markets and to facilitate private investment the municipal government should:</p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>Review:</i> (i) the process and fees applied to register property sale, (ii) the building permit and land subdivision and assembly process, and (iii) the taxes levied on real estate capital gains; <input type="checkbox"/> <i>Prepare a zoning plan</i> for the built-up area of Sofia compact city and the area immediately adjacent to it; <input type="checkbox"/> <i>Conduct an inventory of land parcels and buildings owned by the government</i> that are not currently used for government functions: i) evaluate the real estate value of these assets; ii) establish a calendar for the sale of non necessary assets, iii) undertake a similar review of land owned by quasi government institutions (like railways or state owned enterprises).
2. Development and functioning of businesses in the city center are affected by the lack of appropriate office and parking space.	<p>To enhance the economic vitality and competitiveness of the city center Sofia municipality needs to undertake the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Prepare a zoning map for the city center; <input type="checkbox"/> Conduct a feasibility study on parking fees for public and privately built and operated off street parking; <input type="checkbox"/> Conduct a traffic management study in the city center including pedestrian flows; <input type="checkbox"/> Identify pilot projects for pedestrian streets; <input type="checkbox"/> Allow the renovation and conversion of existing buildings into small offices.
3. Sofia has an inefficient public transport system that contributes to existing spatial labour market distortions.	<p>To increase access to jobs, Sofia municipality should assess potential problems in the operation of the public transport system with the goal of reducing trip time. Specifically it needs to: i) review peak hour traffic to identify trip patterns across the city, ii) identify weak points in the road network that could hinder movement from one part of the city to the other, iii) conduct performance survey of public transport, its frequency, routes etc.</p>
4. The poor quality of residential areas, particularly the ones with panel high-rise development is a major problem.	<p>To preserve the quality of existing housing the municipality needs to develop an action plan for its rehabilitation. Three aspects are essential:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Testing the economic feasibility of improving panel housing in selected areas through: i) survey of market values of apartments in panel housing residential estates, ii) conducting a feasibility study; <input type="checkbox"/> Reviewing the current condominium legislation and the functioning of condominium associations; <input type="checkbox"/> Analyzing options to finance maintenance and energy retrofits to choose the option with the highest return on investment.
5. Sofia's cultural resources need more efficient protection.	<p>To protect Sofia's cultural resources, city's policies need to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Create a protection perimeter around the most important monuments; <input type="checkbox"/> Leverage investment in renovation and maintenance of cultural monuments.
6. The municipality lacks an efficient system to monitor changes, to evaluate the impact of actions taken, as well as to assess the effectiveness of policies pursued.	<p>Develop a system of indicators to monitor the implementation of the CDS and establish an institutional entity that deals with this task.</p>

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Interviews

Sofia City Development Strategy

November 9-18, 2000

Sofia Municipality

Mr. Stefan Sofianski	Mayor
Mr. Stoyan Yanev	Chief Architect
Ms. Ekaterina Stajkova	Chief Accountant, Department of Finance
Ms. Delijana Setchenska	Deputy Head of Architecture and Urban Planning Department
Ms. Veneta Fekeva	Head of Social Assistance Department
Ms. Radeva	Deputy Mayor, Health Care and Social Assistance
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