

STRUCTURE-ADMINISTRATIVE DECENTRALIZATION AND GOVERNANCE SUSTAINABILITY

The study examines the relationship between structure-administrative decentralization and governance sustainability, and their role for optimum functioning of regional economy. It analyses a conceptual framework, utilized to measure the structural decentralization process, the level of compatibility between activities in two administrative categories/processes - Integral and Conceptual categories. In addition, the study determines the utility coefficients of these activities in the process of administrative, social and economic decentralization. They are very important for optimizing the administrative/governing behavior of local authorities and business organizations.

JEL: O10; R11; H11; C78

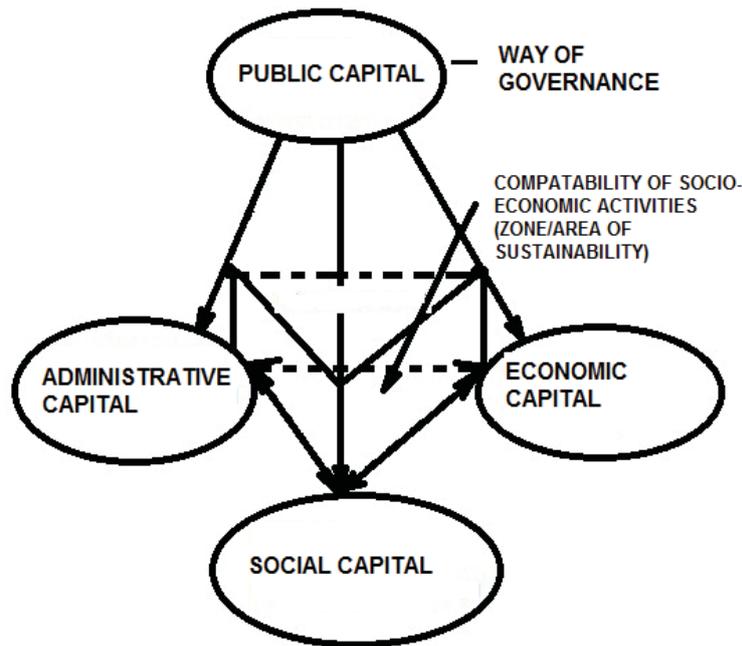
A sustainable functioning of the socio-economic system has a direct impact on the level of society's economic performance. To a large extent economic performance is subject to the ways of governance of this system. The most common ways of governance are subdivided into a modern (democratic) and traditional (stereotypical) governance. Modern governance is oriented towards a change in the socio-economic system and points to determining key prerequisites, which lead to sustainable change in a society, i.e. to increase in the level of public capital. Stereotypical governance, in turn, leads to routine governing/administrative practices, which more often deter social and economic development and lead to institutional crises in society.

Conceptual framework of the administrative and socio-economic decentralization

The relationship between governance and development of the socio-economic system points to the question of: *What increases the sustainability of a socio-economic system?* This study argues that socio-economic sustainability and development is subject to the level of stability and compatibility of three separate but interrelated governance sub-systems. Generally, these systems are subdivided into: *administrative, economic and social* (see Fig. 1). The main argument is that the stability/sustainability of the *administrative system* is achieved by delegating socio-economic activities from the central to local governments' jurisdiction, i.e. by increasing the level of *structure-administrative decentralization*. *Stability of the economic system* is accomplished by determining the *preconditions for economic development* and analyzing their overall utility and effectiveness for business organizations' development. *Stability of the social system*, in turn, is seen as a result of the degree of advancement of the administrative and economic systems combined.

Figure 1

Sustainability of the socio-economic systems

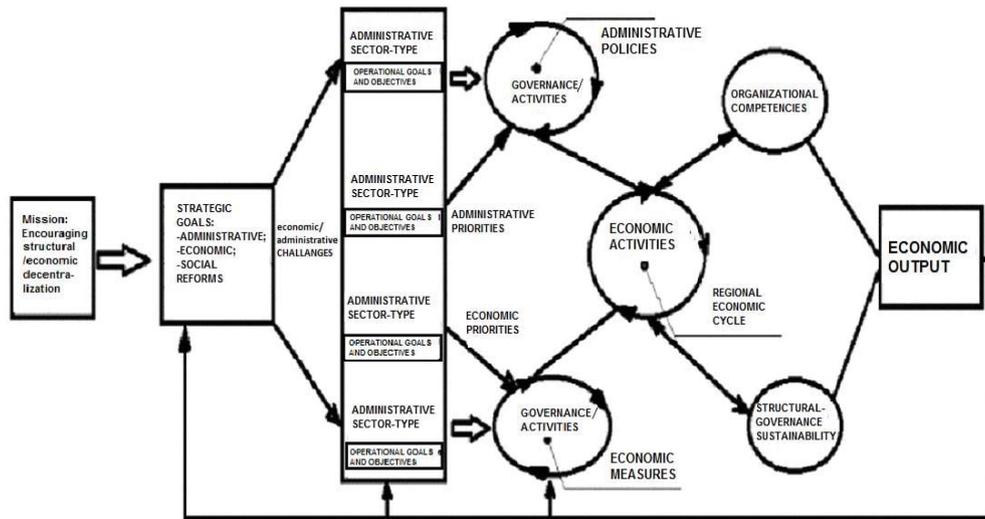


Sustainability of *administrative, economic and social activities* of local governments is achievable when there is a good comprehension of the scope of regional economic issues and activities, on the one hand, and the ability/potential of local governments to implement the envisioned administrative and/or economic reforms, on the other. As a result, an increase in public capital implies active participation of regional organizations - public and private, in the process of building the social and economic infrastructure. This is achievable through delegation of a number of socio-economic activities to the local level of governance and a higher level of local government's economic activity.

The conceptual framework, which helps carry out the process of structure-administrative decentralization, is illustrated in Figure 2. The effective use of this conceptual framework of structure-administrative decentralization is possible, when the types/sets of administrative processes are properly defined and activities take place at the regional level. In addition, it is important to determine their significance and measure their importance for achieving the proposed structural and administrative objectives. In addition, this framework helps reveal economic and social challenges in the decentralization process, as well as develop appropriate measures, encouraging regional socio-economic development and growth.

Figure 2

Conceptual framework of structure-administrative decentralization¹



Administrative decentralization and governance sustainability

In the structure-administrative decentralization process, administrative sustainability is achievable on the *ground of compatibility* between managerial activities carried out at the local level. The level of compatibility enables local governments to "program" their activities, to set their economic priorities and determine key economic practices conducive to regional development and growth. In addition, it helps design a governance framework that: A) *Strikes an optimal balance of administrative activities aimed at achieving the preset/desired economic output*; and B) *Funnels a governance concept that helps identify local governments' priorities in the process of structural/economic decentralization*.

In general, the *structure-administrative process* consists of two subordinate processes - *Integral and Conceptual process*. The *integral structure-administrative process* includes activities aimed at increasing the efficiency of municipal budgets and assets. The achievement of these objectives require integration of information technology systems and databases that provide readily available access to administrative policies and exchange of best governance/management practices and-enhance the level of communication between administrative units and establishing

¹ This framework is used by the author in a software platform, which is conducive to regional economic cycle development by business projects' outsourcing - www.bexo.org - property of Management Center "Open Mind" Ltd. - www.openmindmanagement.org

the necessary preconditions for controlling and adjusting regional activities to make responsible and ethical community decisions.

The first set of governing activities in the Integral administrative process aims at *promoting partnerships and alliances between local authority and national public or private educational research organizations* in order to forge a community development agenda consisting of development programs and to offspring a regional development analytical framework. Of course, these programs must be synchronized with the priorities for social and economic development of the region. Largely this sphere of partnership and/or alliances enables the municipal government to generate the necessary scientific potential/capacity for the implementation of regional structure-administrative and economic changes. For the purposes of this economic analysis, we will jot down this management activity with the provisional name "Educational Research Activities" (*ERA*).

Another variety of governing activities in this process category are related to *tax and fiscal operations of local authorities/municipalities*. This type of administrative activities aim at determining the correct balance of fiscal measures to ensure adequate economic functioning of a particular region/economic zone. The purpose of this administrative activity is to establish a micro-fiscal organization/structure that is available to analyze the needs of the municipality, related to the adopted plans for economic development and the preparation of a stable financial framework for practical implementation of the envisioned economic reforms. For the purposes of this economic analysis, we will mark down this management activity with the provisional name "Tax and fiscal activity" (*TFA*).

Governance/Administrative activities, which lead to providing *social security and insurance of public sites*, are jotted down with "Social insurance activities" (*SIA*). The focus in the implementation of these activities is on demographic trends in different municipal areas. Of particular importance here is forecasting the region's population dynamics, i.e. levels of migration, birth rate, mortality rate and migration/immigration. While fertility and mortality are related to the establishment of public health care and education, migration and immigration (incoming and outgoing) are directly related to analyzing the level of employment and the potential for economic growth, based on the available employment resources/industry structure in the region.

The last set of managerial activities in the Integral category is *technologically oriented and is related to the development of information systems*, capable of supporting the operational efficiency and efficacy of the regional/local administration/government. These systems include the construction of Business-to-Business (B2B) information technology (IT) platforms, intensifying the interaction between representatives of different public and private segments and regional structures. Such platforms sustain the efficiency of administrative activities, diminish the level of beurocracy by shortening the service personnel in the local administration and ultimately reduce the budgetary costs. Such IT platforms enable business projects' outsourcing and reduce the administrative cost of doing business worldwide. The development and implementation of technology projects and information systems,

also, reduce the costs of doing business at the regional level, and provide identification of latent and potential problems in the structure and administrative functioning of local authority. For the purposes of this economic analysis this set of managerial activities will be provisionally called "Administrative technological activities" (ATA).

The structure-administrative governance/managerial activities relating to processes of Integral *decentralization* are illustrated in Table 1.

Table 1

Structure-administrative activities of the Integral decentralization process

ERA - management of activities, aimed at developing the scientific potential of the local authority. The focus is on initiating administrative and structural changes in the region.	TFA - management of activities, oriented to tax and fiscal support of the local authority. Includes the creation of micro fiscal entity to analyze and plan the economic needs of local authority.
SIA - management of activities for social security and insurance of public sites. The focus is on analyzing the demographic dynamics and trends of the population in a region.	ATA - management of activities necessary for technological capacity building of local authority, i.e. development of information systems and B2B platforms reducing transaction costs (time and money) for doing business, and bureaucratic burden of the regional public administration.

Unlike the Integral structure-administrative mainstream of activities, the *Conceptual process* aims at initiating governance activities that stimulate human resources (HR) capacity building and precondition industrial/economic growth. By initiating new governance practices and administrative activities in the structures of the local authority, arises the need to develop a set of knowledge, skills and managerial competencies necessary to enhance the level of efficiency and sustainability in the light of the newly set municipal/local government's objectives. The highlights of the regional structure-administrative decentralization policy are associated with the identification and implementation of best management and educational practices in the process of regional development and commitment to enhancement of environmental sustainability. In this sense, governance activities in this category aim at aligning the initiated economic regional projects with the achievement of the proposed regional objectives.

The first set of structure-administrative activities in the *Conceptual category* aims at developing the *potential of the human resources of local authority structures*. This includes implementation of educational seminars and programs building *the administrative and managerial capacity of municipal servants*. It focuses on closer cooperation between local authorities and centers for continuing training and education. The aim of this cooperation is to conduct educational programs, which develop managerial competencies, knowledge and skills necessary to overcome the challenges related to proper functioning of the regional administration. The task is to develop competitive advantages of the organizations and bodies of local self-government. For the needs of this economic analysis we will note this governance activity with the provisional name "Executive management activity" *EMA*.

Another spectrum of *Governance activities in the Conceptual category* is related to the legal administrative functioning of the local government. The objective is to create local judicial entities, providing legal standards of conduct, rights and obligations of business organizations and municipal administrative units alike, i.e. to look after the preparation of judiciary documents, licenses, contracts of employment in each area of activity, in accordance with labor and legal codes of union organizations. Such administrative type of activities creates the necessary preconditions for sustainable functioning of regional public and private organizations. We will denote this governance activity category with "*legal administrative activity*" (LAA).

The third set of *Governance activities endeavors regional capacity building and development through public-private partnerships and alliances*. These activities are primarily aimed at establishing the necessary preconditions for regional industrial and economic development. Of particular importance is to identify the competitive advantages of each region and to seek ways and means for the development of these advantages. The task is to stimulate local manufacturing and industrial capacity building. This will inevitably lead to higher regional economic activity, to increase in municipal revenues and to more targeted use of these funds for the development of the regional economy. This category of management activities is provisionally labeled as "*partnerships management activity*" (PMA).

The last set of local governing activities - "*Interregional cooperation activities*" (ICA), refers to possibilities of *interregional cooperation and implementation of joint municipal projects*. These projects aim at building interconnector links of household infrastructure projects in the field of waterworks, electrification, gasification and central heating. Another immediate task refers to staging possibilities for international cooperation and attracting investments for major projects of national importance. Foreign investments are expected to increase the overall competitive advantages not only of a particular region, but also of the national economy as a whole. The aim is to stimulate production rather than consumer credits of public and private entities in each municipality.

This set of governing activities pertaining to the Conceptual decentralization process is illustrated in Table 2.

Table 2

Structure-administrative activities of the Conceptual decentralization process

<p><i>EMA</i> - governing activities, aimed at developing the administrative and managing capacity of local governments. Priority is given to the development of managerial competencies, knowledge and skills necessary to overcome the challenges of personnel capacity building and management of public/private sector organizations.</p>	<p><i>LAA</i> - governing activities, established to ensure proper legal functioning of local authorities. They include judiciary reforms necessary to sustain proper functioning of all administrative and business entities.</p>
<p><i>PMA</i> - governing activities aimed at promoting a competitive regional economy and potential for business growth. The task is to stimulate local manufacturing and to develop an industrial capacity for each region through alliances and public private partnerships.</p>	<p><i>ICA</i> activities - governance of activities aimed at establishing preconditions and development of interregional economic projects, i.e. attracting investments for projects of national importance.</p>

The sustainable output of the envisioned governing economic activities largely depends on the level of *compatibility among them*. The higher the compatibility level, the stronger is their catalyzing effect on regional development and the quicker be-gets the output of the desired economic result. Solving this analytical problem is based on an algorithm developed on a new management methodology - "a cognitive topology".² The results of the analysis are listed in Table 3.

Table 3 demonstrates that *governing/management cycle TFA* is highly compatible with management activities *ERA, ATA and LAA*. In other words, initiation of governance activities in *tax and fiscal operation* of local authorities are contingent upon the successful completion of governing activities in the *judiciary, technological and research spheres*. Expectations are that this range of administrative activities will align efforts of local authorities and point them towards development and deployment of a single administrative/fiscal/taxation system that enables sustainable operation of other structure-administrative governing activities in the public and private sectors.

Table 3

Levels of compatibility between both structure-administrative activities in the Integral and the Conceptual categories/processes

	TFA	ERA	ATA	SIA	EMA	ICA	PMA	LAA
TFA	cohesion	.34	.27	.07	.20	.08	.01	.24
ERA	.34	cohesion	.69	.22	.01	.01	.10	.06
ATA	.27	.69	cohesion	.51	.01	.30	.31	.48
SIA	.07	.22	.51	cohesion	.01	.44	.29	.22
EMA	.20	.01	.01	.01	cohesion	.01	.21	.12
ICA	.08	.01	.30	.44	.01	cohesion	.63	.42
PMA	.01	.10	.31	.29	.21	.63	cohesion	.21
LAA	.24	.06	.48	.22	.12	.42	.21	cohesion

Administrative activities, which are highly compatible with governing cycle *ERA* are *TFA, ATA and SIA*. This means that the success of management activities in research, directly depends on: *the availability of Information Technology (IT) systems*, which reduce outreach campaign barrier between the public administration and educational institutions; the extent of building and developing local microfinance entities and the successful fiscal operation of the local authority. This is so because the expected economic effect boils down to facilitating access to economic and statistical information. In other words, access to such information creates the prerequisites signifying the evolving economic dynamics and contemplating the scientific/industrial potential of a region.

Administrative activities compatible with governing cycle *ATA* are *ERA, SIA and LAA*. This eclectic set of management ingredients brings to the fore economic

² This methodology is approved for patenting by the World Intellectual Property Organization (no PCT/CA2012/050715).

dynamics, which signifies that the development of local government's technological capacity is accompanied by reduction in budgetary costs, and is contingent upon adequately built research-administrative structure and judiciary system of local governance. *This governing cycle builds* management frames that help local municipalities to envision the impact of the demographic factor on social insurance projects related to *pensions, education and other*. Generally speaking good *information technology support* of the governing administrative process is equivalent to cost optimization for *this set of structure-administrative activities*.

Governing activities compatible with management cycle SIA are *ATA, ICA and PMA*. The compatibility level among these governing activities signify that the successful implementation of reforms in the field of social and public insurance depends on the level of competitiveness of a region, and the ability of the municipal structures to initiate or take part in interregional economic projects, i.e. to become shareholders of major projects of national significance. In the event that this management cycle leads to the desired economic result - an increase in economic activity in the region is expected to ensure adequate and successful social sector reforms.

Governing cycle that leads to the development of managerial and administrative capacity of the local authority - *EMA*, is a prerequisite for enhancing the competitiveness of a region's economy - governing activity *PMA*. In other words, *management capacity building becomes increasingly more important*, when a *region is experiencing economic difficulties* or is in the process of implementing pending social, economic or political reforms.

Administrative activities that are highly compatible with governing cycle *ICA* are *ATA, SIA, PMA and LAA*. The analysis of the economic effect of these administrative/management activities indicates that the attraction of investment projects in each regional economy depends directly on the existence of a well-built technological base limiting bureaucratic barriers of doing business, on the one hand, and reducing the alternative costs of doing business, on the other. The effect of these governing activities on the economy funnels down to shorter time-frame for business registration, favorable tax policy conducive to business development through foreign investments, and measurable demographic and economic dynamics, e.g. the presence of qualified labor and other social/economic indicators related to the overall industrial competitiveness of a region and the existence of a legal/judiciary framework, ensuring cumbersome business operation (including barrierless transfer of labor and relatively liberal incoming immigration policy), as well as other similar measures.

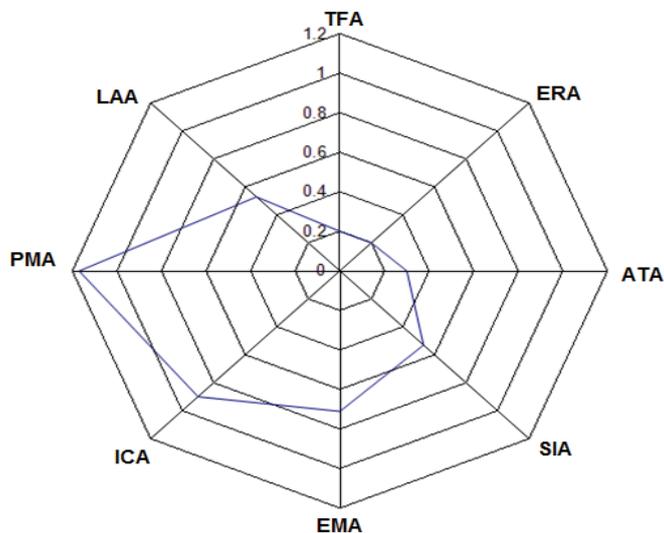
It is important to note that the defined governance/management activities in Table 3 do not exclude the possibility of evolving a new-complementary type of management behavior in the framework of each governance cycle. The focus here is to show which managerial activities are compatible with each other and with each governance cycle. Such an endeavor helps the study to define the expected social and economic/administrative policy/group results.

In the course of time the newly initiated governance activities become routine and result *in an inert social and economic behavior*. This type of behavior frequently clashes/gets in conflict with the changing economic environment, which in turn imposes an objective necessity to developing a new set of management activities/governance cycle. Of course, the new governance cycle must be compatible with the original, both in order to promote sustainable regional development and growth, as well as capacity building. Largely, this level of compatibility determines *the utility coefficient* of sustainability of economic/governance/structure-administrative activities in each region.

The utility coefficient of sustainability becomes a beacon for evaluating the impact of governance activities upon the intensity of organizational dynamics (Figure 3).

Figure 3

Utility coefficients of governance activities in the process of decentralization



The proposed utility coefficients help determine the sustainability balance of structure-administrative/governance activities/cycles, leading to sustainable/ optimum economic functioning/results. It is important to note that if the proportion/ gravity of the ongoing structure-administrative activities/priorities fall outside the proposed framework of the "programmed governance behavior", there are going to be delays in the socio-economic reforms and a decline in the economic activity of a country's regions.

From Figure 3, it is evident that leading regional governing activity is the development of organizational competencies through business partnerships and alliances³ (*PMA*) as a means to enhancement of the overall competitiveness of the

³ These include public-private partnerships and partnerships based on business projects outsourcing. Of course, other forms of partnerships and alliances are also put into perspective.

economy.⁴ Other governing activities, which do not tolerate any delay, and are expected to heighten the level of economic activity and achieve the desired economic results, are *ATA, SIA, and ICA*.⁵ Their sustainability/utility coefficients and level of compatibility in the process of sustaining and enhancing the level of competitiveness of an economy is respectively .31, .29 and .63. These coefficients are indicative that a nations' priorities for economic development in the process of decentralization pertains to its capacity to embark on interregional economic projects and its ability to attract investments with *national significance* to the country's economy, as well as the implementation of industrial projects on the basis of public-private partnerships and or business-to-business alliances. *The focus here is on technological capacity building of the economy as a prerequisite and a catalyst for sustainable economic growth, as well as on the proper assessment of the impact of the demographic factors on the social and economic dynamics of a region.*

Structure-administrative decentralization and governing behavior

The fiscal decentralization heightens the level of regional economic activities of the regions in Bulgaria. This process is often accompanied by delegating/dislodging a number of governing administrative activities from the central/national to local/regional authorities. As a result, the decentralization process leads to significant social- and structure-administrative changes. The *dynamics and specific features of the policy of social and economic decentralization* fall within the boundaries of the *four major areas of public/governing attitudes/behavior*. In general, they are divided into the *area of "public/administrative adaptation"*, *area of "public/administrative absorption"*, *area of "public/administrative indifference"* and *area of "public/administrative testing"*. The analysis of these areas not only provides the ability to outline the "macroeconomic framework" of governing sustainability, but also to identify those financial and economic challenges, measures and priorities that encompass the entire spectrum of governing reforms and point to the desired social and economic results. They help develop a governing behavior that complies with and adhere to the foundation of a functioning decentralized society (see Figure 4).

- *The area of "public adaptation" is characterized by a high level of sustainability and utility of the ongoing administrative and economic policy (governing behavior) and a substantial/significant (desired) change in the functioning of local authority (public governance).*

Successful functioning of regional structures in this area involves: liberalization of a nation's economy; changes in tax legislation and policy; the transfer of a number of governance activities of the central to local authorities; a higher degree of transparency on a given regional policy; stimulation of public-private partnerships on projects of mutual economic interest and other. These and other measures are expected to file the

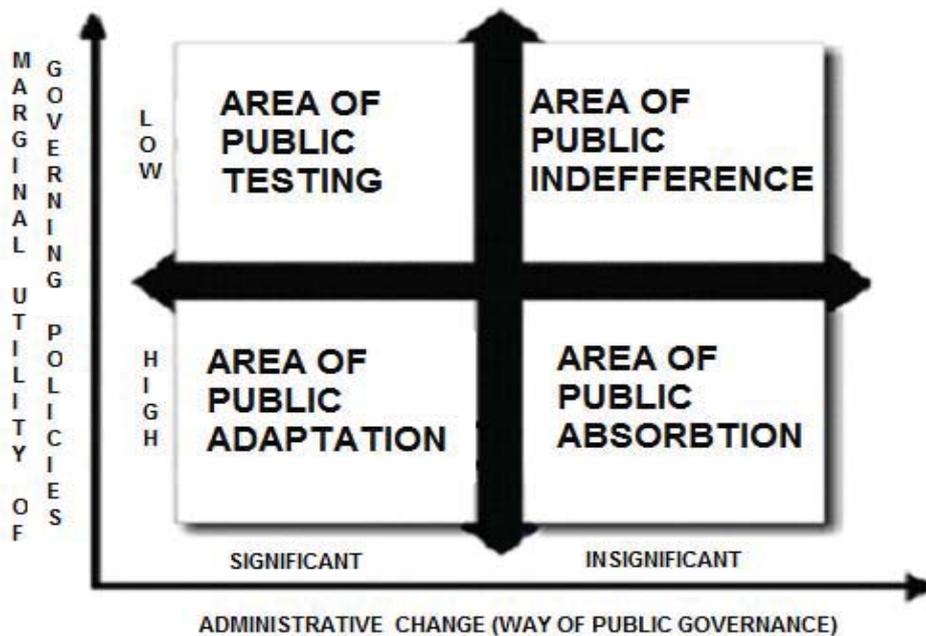
⁴ Its utility coefficient is 1.15.

⁵ These activities are highly compatible with governing activities illustrated in Table 3.

necessary social and economic changes, which will enable regional business and public organizations to increase their economic activity, to facilitate administrative capacity building and heighten the economic potential for sustainable regional development and growth.

Figure 4

Governing behavior and dynamics of structure-administrative decentralization



Economic liberalization, as a strategic measure, is expected to eliminate existing governmental barriers of doing business; to give more freedom to local government to initiate investment projects; to reduce transaction costs (time and money necessary for the implementation of business projects) and the degree of centralized control. Such an administrative/governing measure creates a more entrepreneurial local government behavior and is a prerequisite for developing vibrant managerial competencies of local administrators. The only criteria needed for the regulation of business projects in the region is its compliance/relevance to existing European norms and standards of doing business. It determines the extent of public/private project legitimacy.

Changes in tax legislation and policy aim at achieving a higher fiscal autonomy and efficiency of the local authority. An example of a governing policy in this direction is the tax rate reduction of organizations that sponsor social and public projects. This will not only boost participation of business organizations in regional projects, but

will also contribute to a regional infrastructure development based on public-private partnerships. Of course, such a change requires the creation of a flexible system of taxation, which effectiveness cannot depend on a centralized state authority - The Ministry of Finance. It should be synchronized with the needs of each municipality. Tax reforms relating to the manner and level of taxation of businesses and households, will enable municipal structures themselves to regulate their fiscal/taxation system, depending on the budget necessities of a particular region in view of the implementation of social projects in the field of health, employment, cultural development, sports and education.

Delegation of fiscal policies and taxation to local authority creates a number of *advantages and challenges*. The main advantage is the simplification of the taxation system. This includes a more straightforward reallocation of collected taxes on the territory of a given municipality. In other words, the taxes, which are collected by the municipality or are imposed by it are directly allocated to the municipal budget not the republican. Such an approach not only removes bureaucratic barriers, and creates a more effective taxation/fiscal system, but also enables local authorities to have at their immediate disposal all the funds gathered on their territory so that they can plan their own income and expenses. This saves procedural time and money, by eliminating the necessity of government transfers to regional authorities. This fiscal/tax governance behavior is expected to reduce the period for recovery of all governmental payments and obligations of the centralized fiscal authorities to public and private organization, which in turn guarantees timely VAT reimbursement and payment of social security benefits and healthcare aid.

The challenges, in turn, are related to building the necessary technology and management capacity of the local authority structures, which allows artful collection and management of local taxes. It is also important to protect municipal budget from tax violations and fraud. Therefore, it is necessary to create a social network in place that promptly signals for tax violations and unlawful operations.

Transfer of a number of structure-administrative activities from central to local authorities increases governance responsibility and sustainability of the ongoing economic policy and brings up substantial social and economic changes. In this category of administrative activities fall: *licensing of business organizations at the local level* (organizations, functioning on the territory of a municipality should obtain licences for their activities by the municipal administrations); *creation of regional advisory bodies that facilitate economic analysis preparation falling in the area of regional household infrastructure development, i.e. sewages, waste dump depots, road infrastructure, etc.*; *Identification of demographic trends and their synchronization with the need of establishing an adequate healthcare, education and cultural system*; *creation of municipal centers for business development and the implementation of specific investment projects, etc.* This type of governance behavior in the process of fiscal and economic decentralization has a positive impact on regional dynamics and creates an environment that is characterized by lasting interaction between public institutions, on the one hand, and business organizations, on the other hand.

The decentralization process is commensurable with the need of the conducting a *transparent regional policy*. Transparency enables all interested parties by regions - i.e. business organizations and residents - to develop a better understanding of the specific features and objectives of the regional policy and to take appropriate measures for improving it. For example, the high transparency of revenues and expenses of the local authority increases administrative responsibility of the municipal structures, on the one hand, and promotes active business and household participation in local policymaking and infrastructure/ resource management and development.

Transparency policies lead to organizing public forums and public debates, which enable municipalities to get acquainted with social and economic needs of businesses and residents, as well as to seek ways and means to solve latent problems arising in the process of local authority functioning and level of performance. Transparency in the policy-making process often leads to governing behavior that takes into consideration different aspects/views on regional priorities and assesses their impact on business development, as a whole, and on regional entities, in particular. A major strategic objective in this governing cycle is to determine the scale of its impact on regional social and economic development. The main task is to minimize the possibility of a conflict between the expected and real results and sustainability/utility dynamics of the ongoing regional policy.

A *strong impact on regional economic activities* enjoy governing policies aimed at public-private partnerships, i.e. joint ventures formed by municipalities and business organizations on regional business projects of mutual economic interest (non-zero sum economic ventures). Sample household projects in this direction are *gasification, central heating and regional electrification*. Local authorities' shareholder participation in such household infrastructure projects creates the possibility for additional municipal income and entrepreneurial/governance/ administrative capacity building. Such entrepreneurial/governing experience is a prerequisite to initiate regional economic cycles for systematic development of the economic and social municipal capacity necessary for implementing all administrative policies and infrastructure required for sustainable local governments' functioning and regional economic growth.

• *The "area of public absorption" is characterized by high stability and utility of the ongoing governing policy and marginal changes in the way of public functioning.* Local governing/administrative structures operate in this area then, when there is a change in public attitudes and perceptions of the environment within which they carry out their activities. Politics of joint inter-regional social and economic development areas, for example, create the prerequisites of doing business in a highly competitive environment. The administrative effect funnels down to redefine the social and economic governing model and to identify potential advantages and disadvantages of the ongoing integration activities and processes. In the newly established public and business environment, it is essential to identify these unique opportunities, which match the competitiveness and comparative advantages of a region's economy. In this sense, the strategic objective is to determine the level of regional competitiveness - what manufactured products and services bear strategic advantages

and how do they differ from those in the competing region. This in turn leads to conscious and continuous enhancement of the regional economic preparedness and to development of the economic potential and priorities by targeting newly formed consumer segment.

• *The "area of public testing"* is characterized by *low utility of social and economic policy-making and a substantial change in the way of doing business*. Emphasis in this area and regional dynamics is on building a climate of trust between regional stakeholders and public institutions, on the one hand, and creating the prerequisites for sustainable social development, on the other. Building a climate of trust is based on healthy governing policies contributing to regional development and growth of economic, natural and human resources, while achieving the desired level of social sustainability guarantees a clean implementation of both social and economic administrative reforms. In other words, social sustainability in this context aims at creating an environment conducive to market needs and public demands.

• *The "area of public indifference"* is characterized by *low governing policy utility and irrelevant change in the way a region operates*. An out-of-balance social policy, for example, shifts public support for constructive infrastructure business development to relatively uncontrollable and hard-to-measure social programs. Typical for this governing area is an unbalanced economic policy or social expenditures that increase government and municipal costs, generating out-of proportion local budget deficit. Regional dynamics is often accompanied by disproportionate government spending for social and economic development, which leads to serious economic consequences for business and society.

The problems with an out-of-balance social policy are the difficulties encountered in the process of its optimization. Failure to improve the effectiveness of social costs, often causes high business taxation and failure of business to perform their tax obligations and/or reinvest company profits in social and/or economic infrastructure development. Thus, social policy frequently gets in conflict with its own conceptual basis upon which it is build. Increasing government spending and/or municipal costs in one social sector and reducing them in another benefits one social group and causes additional social costs for reintegration of another social group.

Another major problem with exuberant social expenses is the inability to determine the degree of saturation of the needs of the social sector, and to determine the utility level of social costs. Lack of a clear-cut conceptual framework, upon which social policy is built and upgraded, often causes lack of public usefulness and difficulties in the measurement of its economic effect on public/social sustainability. The imbalance between the ongoing social policy and business needs is often the cause for absence of socially responsible economic practices. This in turn stalls regional economic development. An out-of-balance social policy often surfaces in an outbound business dynamics, e.g. purchasing the right of doing business on a foreign market - acquiring a foreign license; removal of the production facilities or proprietary/patented technology in a foreign state; or a management contract - business franchising. In

other words, it trickles know-how and best management practices outside the country conducting such socially oriented economic policy.

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The analysis of structure-administrative activities and the governing behavior in the process of social and economic decentralization helps establish regional strategic priorities conducive to sustainable governing policy, practices and transformation. It sets the framework of acceptable and unacceptable social and economic behavior and outlines the expectations for regional development. Several operational objectives and tasks lead to sustainable economic results and more effective functioning of the local authority/government.

Based on the preceding integrated and conceptual analysis we can effortlessly conclude that the policy of structure-administrative decentralization is accompanied by a number of difficulties and contradictions. The reason for such interferences can be traced in the sequencing/cycling character of the national and world economy. In such an environment, the executive decision often boils down to figuring out what is a healthier governing approach to regional development: *a more aggressive tax policy and increase in tax rates or attracting investments by low taxes*. In a significant municipal indebtedness, the proper economic choice will boil down in search of opportunities for close interaction between public and private organizations based on public-private partnerships/business oriented alliances and/or more aggressive project-oriented governing behavior open-minded towards European Union's programs for regional and economic growth and development.

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