

## **Draft 1999 Annual Report**

### **Summary**

In the eight year since established, IME has built new and re-vitalized existing, links with businesses, national government bodies international financial and other institutions and public policy institutes from Bulgaria and abroad. It raised funds to work out innovative solutions to hot economic and social welfare reform issues. On many issues, like regional development, barriers to free enterprise impact of refugees had to develop approaches different from the mainstream practice for economic research and advocacy in Bulgaria, and provoke new thinking.

There are two areas in which IME activities in 1999 have marked particular achievements:

- Improving conditions for economic freedom and enhancing business environment, and
- Domestic and international awareness campaign on Balkan conflicts and transitions.

### **Mission and 1999 Commitments**

IME mission is to elaborate and advocate market approaches to problems Bulgaria is facing in its economic transition. In pursuing it, the Board of IME has determined the following 1999-2000 priorities

- Credit and Capital Market Developments, Mortgage Financing
- Decentralisation, Regional Development, Private Provision of Public Services
- Public Procurement and Competitive Business Environment
- Applied Economics Research, Improvement of Economic Information and Education
- Regulation Impact Analysis and Legislation Corrections Studies

### **Contribution to economic freedom and better business environment**

In the period since established (1993) IME has developed a reputation of a non-partisan advocate of economic growth and prosperity. In the recent years it pioneered research into business associations, transparency, private sector transaction costs, public procurement, competitiveness and economic freedom. For the better understanding of the needs of private sector development the crucial was the role of the interviews with private businesses. From 150 in 1996 their number grew to 700 scheduled for 2000.

These experiences allowed IME to concentrate on real improvement of the business environment.

The strategy was to combine efforts on national, local and firm level.

- On national level we launched a program for regulation impact analysis and monitoring the business environment. Again here, in 1999 IME planned to make a difference via introducing a mortgage finance regulations. It drafted and successfully advocated submission of a mortgage bond bill. By the time of publication of this report, the bill has passed first hearings. It is expected to significantly improve bank competition, and, in two years, to reduce mortgage rates by 2% and release additional BGL 30-35 million of credit.
- With an idea to support better business opportunities, we studied on local level entry barriers for small businesses in services, retail and wholesale trade and commercial road transport.
- On company level we assisted the establishment of a local organization of businesses in Razgrad, the Agency for Regional Development (ARD), and continue to contribute to the development of local capacity and societal consensus through ARD.

On all these levels we do not just write position papers and reports on activities. We seek best available publicity and outreach, in order to secure broader participation and consent mechanisms on development agendas.

### **National level**

- **Regulation Impact Assessment (RIA)**

IME has started to analyze the economic impacts of draft and active regulations. This work is part of the regulation impact assessment done jointly by IME, the Center for Liberal Strategies (CLS) and the Access to Information Program. Together with CLS, we participate in the hearings of the Economic Committee in the Parliament and comment on draft laws. We have done RIA on 6 draft bills pending in the parliament by November 1999:

- Public Procurement Act,
- Small and Medium Enterprises Act,
- Denomination of the Bulgarian Lev Act,
- Statistics Act,
- The Energy Strategy,
- Road Transportation Act,
- Access to Information Act.

The project is funded by the German Marshal Fund of the US.

- **Reducing Administrative Barriers to Business**

At the request of the Foreign Investment Agency of Bulgaria (BFIA), the Foreign Investment Advisory Service (FIAS) of the World Bank has undertaken a study of administrative barriers to investment in the country. IME was selected as Bulgarian partner of FIAS mission. Currently, the report (see: [www.bfia.org](http://www.bfia.org)) is a major rationale for the government economic growth agenda as well as a source of information.

As follow up, IME, in a team with World Bank economists, studied sources and costs of licensing and permit requirements.

The study goal was to collect data on: procedures related to obtaining all necessary documents for entry into certain markets and to outline the transparency of the procedure; costs of licensing in terms of time, money and other problems; the variance of licensing costs and related problems according to localities; major bottle-necks in the process; institutional and legal arrangements that lead to costly licensing requirements; possible solutions that will reduce entry costs. The respective review has become a background document for the government efforts (ministries of finance and economy) to reduce administrative discretion in dealing with the private sector.

- **Business Environment Monitoring**

Since March 1999, IME monitors business environment for SME's, issues and publishes (in the major press) by-monthly reports on to what extent changing regulatory frameworks policies restrict or support competition. IME's main activities in this context were:

- participating in the hearings of the Committee for Economic Policy of the Parliament commenting on crucial issues related to private sector development;
- analyzing 10 draft regulations and presented our findings to the Committee for Economic Policy of the Parliament business associations and the general public;
- publishing 6 periodical reviews of the business environment in the press;
- analyzing on the impact of regulations on private sector have been frequently quoted;
- disseminating (on its own and through MSI e-mail correspondent list) brief comments on the debates at the Committee for Economic Policy of the Parliament.

▪ **Mortgage Financing Regulation for Bulgaria**

The nature of the work was to transfer best available mortgage financing expertise into development schemes for the Bulgarian mortgage market. In narrow sense, the major outcome is in a form draft regulations, expected to be issued by the Parliament and Bulgarian National Bank (BNB). In a broader sense, the work on this issue initiated institutional and public interest in mortgage financing.

The drafting and general advocacy work is finished, it is to be submitted to the Parliament. The more difficult part comes - hearings and, eventually, enforcement.

If everything goes well, research, training courses and advocacy activities remain to be established and promoted.

▪ **Evaluation of Post-privatisation Monitoring system in Bulgaria**

At the request of the Bulgarian authorities, in cooperation with CASE – Warsaw, IME participated in an evaluation of structural and institutional reforms, in particular the privatization and post-privatization monitoring system. The main goal was to evaluate how privatization bodies have monitored and enforced non-price requirements set in privatization contracts. The evaluation ([www.ime-bg.org](http://www.ime-bg.org)) has a major impact on simplifying privatisation contracts and improving their transparency.

▪ **Measuring the Informal Economy in Bulgaria**

The project collects information on unregistered transactions and unreported revenues of retail, wholesale, transport, construction and tourism, and processing sectors – textiles and knitwear, food and beverage and tobacco, mechanical engineering chemical and oil processing, agriculture, in Bulgaria with a special emphasis on financing the firms. The analyses consist of qualitative description of production costs, revenues, investment costs, profit of commercial sales and the value of equipment. The analysis is partially approximate quantitative estimation of unreported volumes of production and revenues. The methodology of this approach is flexible, permits to use a variety opportunities to collect information and data availability.

The objectives of the study are: to measure the costs imposed by the transitional institutional frameworks on firm's "life-cycle" in current regulatory environment; to reveal the financing of operations at the different stages of the life of the enterprise, including financing for start-ups in Bulgaria and what it is probably connected to: Information problems, monitoring, transaction costs and insolvency of key financial institutions; to compare the results with those from similar research in other regions and European emerging economies in particular; and to estimate the relative share of value added not covered in the official GDP data for the observed sectors.

The study results will be ready in the end of year 2000.

▪ **Rules, Regulations and Transaction Costs in Transition Bulgaria**

In September 1999 IME started a study on Rules, Regulations and Transaction Costs in Transition Bulgaria. The specific topic of this study is a systemic measurement of the firms' cost stemming from the interrelation between current business regulations and the firms' transactions in a transition economy.

For the time being, there is no comprehensive Bulgarian study of transaction costs, approached from the point of view of the firm's operation and firm-related regulations. Similar study, however only on contracts between Bulgarian firms and institutions have been published by Prof. Kenneth Cofford and Prof. Jeffrey Miller from the University of Delaware. There is a reflection on costs induced by property rights in transition economies, published recently by Alexandra and Lee Behnam.

The study targets private companies transaction costs, because the statistical data evidence that micro and small sized private companies are the most dynamic agents in Bulgarian economy.

First preliminary survey results will be available in the middle of April, 2000.

▪ **Economic and Social Impact of Refugees on the Host Country: Bulgaria**

This study aims at rethinking the role of refugees in Bulgaria and other societies. The study results were summarized in a report. As one of the few reports of its kind, it is focused on identification of costs of refugees as they appear to him/her, on the side of the government institutions (not only those which have the exclusive duties to deal with refugees, but also those have a more or less remote input to the refugee process), and on the side of the NGOs and international organizations.

As an EU accession country, Bulgaria attracts people from more vulnerable regions of Central Asia and elsewhere, but due to its own low living standards, legacies of the past and problems intrinsic to transition process it is a subject to EU restrictions on human capital flows and is expected to maintain similar protectionist measures towards human influx from outside the larger integrated Europe.

No internal refugee policy can prevent the influx of people whatever the final destination, Bulgaria, a neighboring country or EU itself, as no policy can isolate the country without dragging its economic and prosperity prospects to the worst years of the recent or more remote past; the policy challenge is rather involve newcomers of the Bulgarian society in a joint pursue of growth and prosperity.

▪ **International Consultation**

Since its establishment IME has been volunteering advocacy and knowledge to improve business climate, help investment and reforms. In 1999, for a third consecutive year, IME volunteered its services to the Bulgaria Economic Forum, drafting and organizing the program for this major annual event (for details see: [www.bfia.org](http://www.bfia.org)).<sup>1</sup> IME continued to act as an internationally recognized focal point for consultation and advice. In 1999, IME hosted or has been invited to 74 visits and consultations for international inter-government, government, financial and private institutions, programs and corporations. The list includes: UNDP, UNHCR, The Stability Pact for SEE, IMF, World Bank, FIAS, IFC, EU Commission, EU PHARE Programme, Deutsche Bank, AIG, Chase Manhattan Bank, University of Kyoto, CARE, CARITAS, MetLife, KPN, OTE, Trans National Research, Poland, Germany, Swiss, UK, US and Japan government (government programs) representatives.

**Local and company level**

Domestic regional "imbalances" become a crucial matter of economic and social policy and are currently stirring up political controversy and public affection. Searching for attractive regional development options has become an urgent task for IME.

▪ **Coordination of UNDP 1999 Human Development Report**

1999 HDR, devoted to regional development challenges, was for a second time coordinated by IME. It managed for the first time since 1989 to introduce these challenges into the development agenda, to collect locally sensitive economic information, and to influence policy agenda in many localities. For the time being, 1999 HDR is the most comprehensive source of data, which may assist decision-making on local level.

▪ **Regional Policy and Development: Support for Razgrad District**

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<sup>1</sup> In early 2000, IME Board decided to resign from BEF and assist the institutionalisation of BEF program activities.

The idea of this currently implemented project is, in cooperation with Razgrad business and society leaders, to build regional capacity to analyse opportunities and costs of doing business in the Razgrad district; to mobilize local resources, expertise and knowledge to use identified opportunities; and to advocate autonomous economic decision making. The activities started in the second half of 1999. By the time of publication of this report, IME consulted all the major district political leaders. It visited 50% of the municipalities of the district and discussed local development with government and businesses. IME economists consulted individually 25 business ventures and assisted district government in reviewing its Regional Development Plan. Besides the establishment of Razgrad Agency for Regional Development, the project managed to bring about the awareness for a broad public consensus and participation on development issues.

▪ **Municipal Entry Barriers: Retail, Merchants and Services**

The ultimate objective of this advocacy effort is to reduce barriers to free enterprise. It reflects the experience of 100 private entrepreneurs (mostly SME's) from Sofia, Samokov and Septemvri in their relation with local government institutions. The finalization of the activities is due in the second half of 2000. The recommendations, if implemented by local authorities, will help the establishment of the so-called one-stop-shops, and reduce by 75% the direct firm costs of dealing with the local government bodies.

▪ **Local Consultation**

IME experts have been involved in volunteer consultation of number of local and district authorities, business associations and NGO's. In general, 15% of the time of IME senior staff (analysts with a doctor degree) has been donated to regional and local governments and private firms from the country. Besides Razgrad, there are three other district development opportunities consulted by IME: Kardjali, Kuistendil, and Sofia-district. In the city of Plovdiv, IME assisted a EURO 35,000 micro-lending scheme for Roma community entrepreneurs. In Blagoevgrad, Bania, Haskovo, Dupnitsa and Sofia, IME measured the impact the refugees on the domestic economy and managed to prove that these community is a net contributor to the economy of the country.

**International and SEE [Rough draft]**

▪ **Conditions for Long Term Growth and Prosperity**

The original mission of the project was to assess and monitor current economic policies, which contribute to or hamper economic growth and prosperity, and propose ideas and patterns for better ones. The idea of the project was to establish and maintain a long-term cooperation in monitoring and advocacy of pro-growth policies in the Central and South East European region as a whole, and in individual Balkan countries. Freedom House kindly supported the 6-months taking off stage of the project. Public policy institutes from Bulgaria, Romania, Croatia, Albania, Montenegro, Hungary and Poland implemented the project. Central European partners are included among the partners in order to ensure a broader vision. The project design was drawn up in the spring of 1999 after active joint work on the part of Institute for Market Economics (IME), Institute for Private Enterprise and Democracy (IPED), Foundation for Market Economy (FME), Albanian Center for Economic Research (ACER), Institute for International Relations (IMO), Institute for Strategic Studies and Prognoses (ISSP), and International Center for Entrepreneurial Studies (ICES). The Institute for Market Economics coordinated the overall partners' activities on the project. As a result of the research work IME prepared two policy papers *In Search For Growth: Bulgaria's Lessons and Policy Options*, *Where the Prosperity Comes From? The Marshal Plan and the Stability Pact*. Apart from research on issues concerning Bulgaria's economic development,

IME took as a part of its work a research in Macedonia. IME team members participated in different project-related conferences, workshops and different meetings (European Stability Initiative Meeting, Vienna, Austria, August 20, 1999; New Concept of Cross-border Cooperation workshop, Vrsac, Serbia, August 21, 1999; A Vision of the Future and Country Competitiveness-An Integrated Approach - Regional Expert Meeting and Senior Policymakers Forum, Vienna, Austria, 13-15 September 1999, Postwar Reconstruction and Development in South-East Europe - Regional Expert Meeting, Geneva, Switzerland, 23-26 September 1999; Ten Years After: Transition and Growth in Post-Communist Countries, Warsaw, Poland, 15-16 October 1999; Round Table Discussion on Accession of Eastern European Countries to the European Union, Amsterdam, November 3, 1999; Reconstruction and Integration in Southeast Europe: Economic Aspects, Vienna, Austria, 12-13 November 1999).

▪ **Facing the Future: The Balkans in Year 2010**

IME was co-organizer of an international conference Facing the Future: The Balkans in Year 2010, constructed as a forum of policy scholars, policy-makers and opinion leaders of Balkan countries and EU countries, which took place in Sofia in May 1999. The major intention of the conference was to bring new ideas in the current policy debate through elaboration from the think-tank community, best placed to face the challenges of the near future and capable of invoking new policy approaches. IME lead one of the three conference panels "Balkan Economies and Balkan Economic Cooperation in Year 2010", where it presented a report based on research into different aspects of Balkan economies (especially those in transition, conducted over the last four years); studies of recent literature on these economies and relevant background political and economic developments; surveys of available concepts of postwar political order in SEE; and interviews with economists from all Balkan partner-countries.

Krassen Stanchev,  
Executive Director

# 99 Annual Report

## Summary

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## National level

- Regulation Impact Assessment (RIA)
- In 1999, IME has started to analyse the economic impacts of draft and active regulations. We participated in the hearings of the Economic Policy Committee in the Parliament and commented on draft laws and have done RIA on bills in the pipeline of that committee. Briefings on the debates were disseminated to two hundred business associations and NGO's and have been often reviewed by the press. IME suggestion for an Annual SME<sup>1</sup> Report has been passed in the Small and Medium Enterprises Law, introducing a device for repeated annual deliberation on conditions to entrepreneurship development

<sup>1</sup> For a list of current and past IME experience in SME-related matters, see Attachment 1.

- Reducing Administrative Barriers to Business
- At the request of the Foreign Investment Agency of Bulgaria (BFIA), the Foreign Investment Advisory Service (FIAS) of the World Bank has undertaken a study of administrative barriers to investment in the country. IME was selected as Bulgarian partner of FIAS mission. Currently, the report is a major rationale for the government economic growth agendas well as a source of information. As follow up, IME, in a team with World Bank economists, studied sources and costs of licensing and permit requirements. The respective review has become a background document for the government efforts (ministries of finance and economy) to reduce administrative discretion in dealing with the private sector.
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Krassen Stanchev,  
Executive Director

**Attachment 1. [Rough draft]**  
**IME Support SME sector**

- **1998-1998 Legal and Regulatory Reform in Bulgaria: The impact on Economic Growth and Private Sector Development**
- **Bulgaria's Competitiveness Exercise**
- **Southeast Europe Trade Initiative /SEETI/: Business across Borders, 2000-2001.** IME acts as a consultant to organize working groups composed of representatives of government, think tanks and business associations in all SEE countries to advocate trade facilitation in the region.
- **Licensing requirements in retail and wholesale trade and commercial road transport - How does licensing affect economic growth?** IME is a principal collector of information and drafter of policy recommendation to loose licensing regimes in Bulgaria.
- **Regulations' Impact on Democracy and Economic Freedom** - a "learning by doing" process of assessing impacts of laws and regulations on democracy and economic freedom, including those in the pipe-line of the Parliament.
- **Assessment of Business Environment – IME By-monthly monitor** of regulations (acts of both the legislature and the executive branch), which have or might have a provisional impact on: economic freedom, competition, and SME activities.
- **Rules, Regulations and Transaction Costs in Transition Bulgaria** - The specific topic of this study is systemic measurement of the firms' cost stemming from the interrelation between current business regulations and the firms transactions in a transition economy.
- **Municipal Entry Barriers: Retail Merchants and Services** - The proposal addresses costs of dealing with the local authorities (government, branches of central institutions and monopolies), Subject area is systemic sources of corruption in local government - SME interaction as established by formal rules and informal practice. Beneficiaries are SME's, their guilds and governments (central and local) seeking alternatives in decentralization and regional development.
- **EC Phare ESAPII Job Creation Component - Impact Assessment tender** - to evaluate the effects of the Job Creation Program on employment in the selected municipalities, as well as the direct effect of the program in terms of long-term results of the work performed
- **Creating Competitive Clusters**, a joint project with the World Bank Institute and four other economic institute from Albania, Bosnia and Herzegovina, Macedonia, and Romania
- **SME Strategy** - drafting sections on equal opportunities, competitiveness, fair government practices and low transaction costs.
- **Strengthening Bulgarian Business Associations** - IME conducted a study on the role of the business associations in Bulgarian political and economic environment based on interviews with over 750 organizations. IME also made an assessment to identify the most viable of them, based on the distinctness of their mission, services they provided, potential to lobby for members, management, and self-sustainability
- **Transparency and Foreign Investment: Costs of Compliance with Tax Regulations; and Fair Government and Investment, 1998** in cooperation with NED and CLS.