Experience With Regulatory Reforms: Bulgaria

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[www.oecd.org\enterprise-development\feed\bul3.pdf]
Summary of reforms

- Transition to a pluralistic democracy (1989-1991),
- Successful start of reforms in 1991,
- Followed by a new “edition” of central planning (1993-1995),
- And hyperinflation and political crisis (1996-1997),
- Since 1997 - a new recovery with 4% average annual growth, finalized privatization of enterprises and banks (of which 85% foreign owned).
- In 2001, it is the first country to outvote its establishment that led reforms between 1989 and 2000.
Abstract

The real choice in reforms, not only in Bulgaria, is to regulate or not to regulate, what to regulate and how? Different answers reveal who benefited and lost, who covered the bill.

Bulgaria is a good example of a country that until 1997 failed to prevent a series of protracted economic crises and reduce the social costs of transition.

Institute for Market Economics, a private think tank, establish 10 years ago, monitors reforms and actively launches bills that improve trust and other conditions for capital formation.

Reform Regularity, Results, and Approaches to RIA

The key regularity of institutional reforms has for a long time have been: no regulation when using other people’s and tax-payers’ money, but over-regulation when people use their own properties and savings.

Underneath the rhetoric of reforms towards capitalism, EU, etc. there was something far less theoretical - a privilege access to public funds and central bank refinancing supported by the lack of fiscal accountability.

The approach to reform assessment turned to be bottom-up defending the interest of the private sector but not deliberately lead by representative business associations: their members expect them to secure access to privileges.
Banks and creditors’ rights

- Setting new banks began in 1989, and was active until 1993; with almost no barriers to entry.
- Bankruptcy regulations were adopted in 1994 but were not applied to loss-making government owned enterprises 1998.
- Creditor rights remained poorly protected (e.g. foreclosure may take 19 months).
- Banks attracted savings of the public but granted credits to shareholders and inner circles plus government enterprises (in order to qualify for central bank refinancing).
- Central bank “cured” the system via financing the government and refinancing banks and through “measured” issues of notes; the results: hyperinflation, privatization of profits and nationalization of losses, which costs were at the level of 14% of 1996 GDP.
Fiscal regulations

Rules of compiling government budget were adopted in 1996 and applied fully in 1998,
Public procurement was put in order in 1999,
Government debt statistics become public in 1999,
The first consolidated budget was published in 2000.
Regulating private sector

In a contrast to lacking or delayed regulations in the financial sector, private enterprise has been, during most of the reform years, heavily regulated.


In 1997, the government has abandoned discretion in monetary (and macroeconomic) affairs but kept it on macroeconomic level.

Recently, new government regulations are explained by EU accession, but, whatever the reason, they retain interference in private transactions.

In 1999, private sector’s unregistered compliance costs were 12% of GDP, and it was 2.5 times cheaper to operate if one does not comply with regulations.

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For 10 years it sums up to 198 amendments to basic framework to engage in business.
Regulation of labor

❖ On every 100 units of wage, the employer’s transfers to the state budget grew from 56% in 1991 to 78% in 1996, and 75% in 1999.

❖ The heaviest part of it the combined burden of contributions to state run pension and healthcare funds, currently 41.2%.
Privatization

In 1996 and 1997, the privatization law outlined privileges for managers and employees (10% down payment and re-scheduling remaining 90% over 10 years) period.

This “privatization” constitutes grant of formerly government owned assets and the right to re-sell or use them - to managers appointed by the cabinet itself.

In 1998, such deals were almost s of all sales of state owned enterprises.

Privatization rarely went via auctions, negotiations (with no rules how to conduct them until 2000) with “strategic” buyers were used in 90% of the sales.

In 2002, the government adopted new rules to skip privileges make auctions a common practice but allow for non-privatization goals to lead the process, an innovation that eventually blocked the process and decreased transparency.
Publicity and RIA

In 1997, then incumbent was not ready to cooperate with OECD on RIA. IME started doing it on its own.

In the described situation it was relatively impossible to achieve major change without publicity and articulated economic analysis of what regulations do, whom do they serve and who, in fact, pays the bill.

Although in status nascendi, even elementary RIA required access to public information and government-on-the-sunshine procedures. For this reason IME benefited from the activities of other private public policy institute, notably from those of Access to Information Program (www.aip-bg.org) - an organization that managed successfully to campaign for adoption of access to information rule and monitors the process. (“Government-on-the-sunshine” procedures are yet missing.)
**Modus operandi**

- METHODOLOGY of RIA is fairly conventional: it is a combination of budgeting, cost/benefit analysis and procedures for communication (public hearings, review and comments periods).
- The Mode IME works is also conventional: it does the cost/benefit analysis of bills in the pipeline, gives findings to decision makers and immediately gives it to the press or publishes on its own.
- It fact, it is a creation of competition for informed comments on draft regulations, which is gradually converted into a competition for better quality regulation.
Participation experience

- IME started working with one committee in the parliament in March 1998.
- The first to get interested was the press.
- Then come business associations.
- Then political leaders and eventually the administration become interested in order to respond to critics.
- Bulgarian experience is different that of Estonia and Hungary where RIA started as a government initiative; respectively the public participation it yet not so visible but RIA is, perhaps, less politically costly for political leaders.
Arguments for Government Reluctance

In addition to above mentioned activities, a coalition of think tanks and technical assistance programs (AIP, ABA CEELI, LGI, MSI and IME) drafted set of bills to implement RIA procedures. It happened in 2000, then (in 2001) this set was updated and presented to the newly elected government. However, it is still reluctant to adopt and of the proposed solutions, although it is required by some conditionalities of the World bank.

The arguments are typical and consists in the following worries:

A) The administration is not ready;

B) It is not clear whom to communicate from the private sector.
Tools to communicate

- Analytical comments and recommendations 140 bill (for 1998-mid-2002), convertible into publications.
- All these quoted at 75% rate and available on: www.ime-bg.org;