

Economic Program

2000 Highlights

The major thematic priorities that have dominated the work of the Economic Program in 2000 were:

- Promoting the core principles of corporate governance in Bulgaria. The work on the Corporate Governance Initiative (CGI) in 2000 got into its second phase. Its main component was the project “Transforming Business Practice through Corporate Governance”.
- Promoting corporate governance in Southeast Europe. CSD was actively involved in the organization of the regional forum “Business Views on Corporate Governance: Building New Structures in Emerging Markets”, held in Sofia.
- Enhancing the business environment for foreign direct investments in Southeast Europe. CSD provided support to the Applied Research and Communications Fund on the project “Foreign Direct Investments in Balkan Countries: Alternatives to Reduce Existing Barriers”.

I. Facilitating the Implementation of Modern Corporate Governance Principles: Corporate Governance Initiative for Bulgaria

The activities of the Corporate Governance Initiative (CGI), a coalition of Bulgarian NGOs working together to facilitate the adoption of relevant corporate governance standards and procedures ensuring transparency and accountability in economy (www.csd.bg/cgi), focused in the year 2000 on the preparation of the *Corporate Governance Assessment Report* and the public endorsement of the *Corporate Governance Guidelines for Bulgaria*. Serving as a secretariat of the CGI, the Center for the Study of Democracy has been among the core actors in this initiative along with such partners as the Association of Industrial Capital, the Association of Voluntary Pension Funds, the Center for Economic Development, the Investors’

Union and the Securities Holders Association.

1. Monitoring the Corporate Governance Reform in Bulgaria

In order to track the progress of reform measures and formulate relevant policy agenda on promoting corporate governance, CGI engaged in a review of the current practices in corporate governance and evaluation of the impact of the activities undertaken so far. The first major issue in this respect was to design and test policy-sensitive indicators for corporate governance and to improve the quality of national corporate sector data. A special task force, led by the member of the National Securities Commission Bistra Boeva, Professor at the University of National and World Economy, and including economists and representatives of private business

came up with a set of indicators on the progress in reforming the legal framework for corporate governance, the efficiency of the relevant institutions and the corporate governance practices in Bulgaria and proposed the structure for the *Corporate Governance Assessment Report* to include analysis of the following problem areas: voting rights and equal treatment of all shareholders; board structure and the role of managing bodies; and disclosure and transparency. Together with a number of Bulgarian and foreign experts the CGI Task Force designed the methodology for pilot monitoring which was completed in November 2000.

In November 2000 the Corporate Governance Initiative conducted a pilot survey for assessment of the corporate governance in Bulgaria. Indexes for assessment of the legal and institutional framework and the companies' internal practices of corporate governance in the public sector in Bulgaria had been calculated.

*Legal and Institutional Framework
Index - 3.26
Internal-Organizational Factors
Index - 3.11
Total Index - 3.18*

The indexes change from 1 to 5, where 5 means maximum favorable conditions for corporate governance development and best practices, and 1 - low level of corporate governance development.

2. Consensus and Coalition Building

CGI Steering Committee, composed of both NGOs-founding organizations and government institutions, including representatives of the Bulgarian Stock

Exchange - Sofia, the Council of Ministers, the Ministry of Industry and the Bulgarian National Securities Commission, provided co-ordination of the project activities and prepared the working plan for these activities. At the meeting on July 11, 2000 it adopted the CGI working program for 2000/2001.

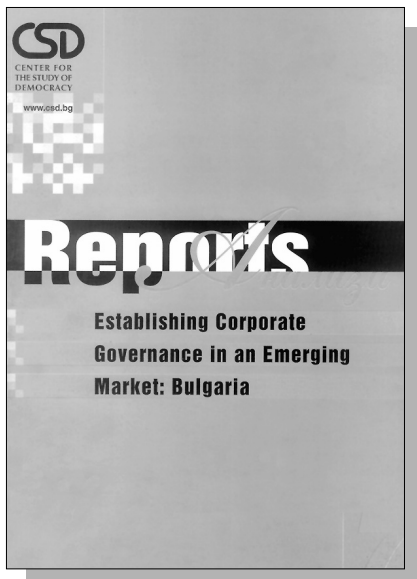
The drafting of the Corporate Governance Guidelines for Bulgaria started in the second half of 2000 involving CGI Task force members and other experts. In line with the 1999 CGI Policy Recommendation Paper, these guidelines focus on the following major areas: a) responsibilities and motivation of boards; b) role of the judiciary and improvement of judicial practice; c) promotion of capital market development and role of institutional investors; and d) residual state shareholding. The Guidelines also include practical measures for the promotion of the culture compliance and disclosure in the economy. The set of policy recommendations targets the regulatory and enforcement levels; it also include advocacy and education activities and involve experts from the Securities Holders Association and other relevant business associations.

3. Dissemination and Advocacy

In 2000 the CGI web site (www.csd.bg/cgi) actively contributed to promoting project goals. The site has been updated on a regular basis to cover current activities and events - it contains the final version of the *Policy Recommendation Paper*, legal and other documents on corporate governance, CSD and CGI publications (summary reports, draft documents, press releases, etc.). A subsection on the results of the Regional Corporate Governance Forum has also been added to the site.

The CGI activities have received broad coverage in the specialized media on business and finance. Both daily and weekly newspapers published a number of articles on the Regional Corporate Governance Forum; TV and radio stations broadcasted interviews with CGI Task Force members and foreign participants in the conference. Dr. Maria Prohaska's article entitled *Corporate Governance in Bulgaria – the Core Issues* was published in the *International Risk Management (Europe) Newsletter* on corporate governance (No. 6, August 2000).

Another successful effort in the dissemination of the recommendations of the regional conference was the CSD Reports publication: *Establishing Corporate Governance in an Emerging Market: Bulgaria*. It includes two studies analyzing the trends in corporate governance in Bulgaria after the first wave of mass privatization and the initial stages of concentration of ownership focusing on the major principles of corporate governance and control as well as the possible implications of corporate governance reform in Bulgaria.



II. Regional Conference on Corporate Governance

CSD could hardly accomplish much in promoting corporate governance reform in Bulgaria over the past years without the continuous support and active involvement of the Center for International Private Enterprise (CIPE). In the year 2000 it was CSD who helped CIPE organize a regional forum on corporate governance for Southeast Europe entitled *"Business Views on Corporate Governance: Building New Structures in Emerging Markets"* and held on September 22-23 in Sofia. The main objective of the Forum was to promote a creative dialogue in which representatives of the business community, various market participants and think-tanks form their own approaches to corporate governance. By focusing on building local demand for corporate governance reform, the Forum also brought together a network of practitioners from the region. Over 100 participants from 20 countries, including representatives of the business community, international aid donor organizations, Bulgarian policy makers and senior government officials, attended the conference.

Richard Miles, US Ambassador to Bulgaria on the importance of the conference: "By involving business representatives, local think tanks and policy institutions, and the international community, the meeting in Sofia encouraged practitioners from around the world to compare notes, share experience, and work together to implement corporate governance reforms throughout the region".

The major topics discussed included corporate governance as an antidote to corruption, corporate ownership patterns in emerging democracies, trans-

parency of financial institutions and corporate infrastructure, local policy implementation and defining corporate governance strategies. The participants shared their experience and views and highlighted successful approaches to policy, advocacy and implementation in three plenary sessions devoted to: a) creating demand for corporate governance; b) market participants and supply side links to corporate governance, and c) pillars of the reform – governance institutions, corporate codes and institutional investors. Working in four groups of 20 people the participants also discussed and identified relevant corporate governance measures with debates focusing on the specific implications for the region and the possible future paths for corporate governance reform. At the conference CSD shared its own accomplishments in the field and gained exposure to the experience of other institutions from Central and Eastern Europe.

III. Foreign Direct Investments in Balkan Countries: Alternatives to Reduce Existing Barriers

Since the beginning of its existence CSD has had a solid track record in promoting foreign investment in Bulgaria. In 1991 CSD initiated periodic surveys of public opinion on foreign investments; in 1993 it came up with a Policy Recommendation Paper on Privatization and Foreign Direct Investments (FDI); in 1994 it carried out a series of case studies on success in foreign investments. A Debt Conversion Program was proposed by CSD in 1995 aiming at a transformation of certain holders of Bulgarian debt into equity investors in the course of the coming process of privatization. Publications on foreign investments in the mass media by CSD staff and associates made a substantial contribution to raising the public awareness of the opportunities and the existing problems in the course



From left to right: Dr. Ognian Shentov, CSD President, Mr. Radoslav Tsonchev, Chairman of the Bulgarian National Securities Commission, US Ambassador Richard Miles and Dr. John Sullivan, CIPE Executive Director

of the past decade. In 1997 CSD participated in the public discussion on the new law on foreign investments.

CSD is currently involved in another foreign direct investment project, this one having a regional dimension. It is assisting the Applied Research and Communication Fund on a comparative study of foreign direct investments in Albania, Bulgaria and Macedonia; the Fund is a partner of the Institute for Development Research and Alternatives and the Institute for Comparative Studies in Tirana and the Forum – Center for Strategic Research and Alternatives in Skopje in this matter.

The project aims at proposing policy measures for reduction of the existing barriers to foreign investments and initiating a process of standardizing and benchmarking the measurement of foreign direct investments in Central and Eastern Europe. At the initial stage of the project CSD provided support for the research on the FDI inflows over the last decade and the review of the legal, institutional and macroeconomic environment for FDI in Bulgaria. A survey of Bulgarian companies with FDI was

conducted by Vitosha Research/CSD evaluating the existing barriers to foreign investment and the company responses to them. A policy workshop and a regional conference on foreign direct investments in Balkan countries to be convened in the year 2001 are expected to come up with policy recommendations for all actors involved, aiming at a better understanding of the existing barriers and coordinating of the measures for stimulation of foreign direct investment.

IV. International Business Club Meetings

The International Business Club, hosted by CSD, encourages business contacts and aims at popularization of business opportunities and promotion of trade and foreign investments in Bulgaria. It provides a valuable opportunity for high-ranking public officials and policy makers met with senior foreign diplomats, trade envoys and representatives of the international business community.

- On April 11, 2000 Mr. Antoni Slavinski, Minister of Transport and



Mr. Thomas O'Brien, Resident Representative of the World Bank (left) and Minister of Transport and Communications Antoni Slavinski at the April 11 meeting of IBC

Communications, addressed the Business Club. He discussed the government's policy in these fields, emphasizing the current priorities, namely, harmonization of the national legislation with that of the European Union, further development of the transport infrastructure, achieving partnership between the public and private sector, creating competitive environment and attracting foreign investments. Mr. Thomas O'Brien, Resident Representative of the World Bank, spoke of the need for the government to attract additional foreign investments in the course of the divestiture of companies from the public sector. He pointed out that these goals could be served by improvement of the existing legislation, greater transparency of the procedures and limiting corrupt practices. He also noted the

importance of the introduction of new forms of private ownership, the regulation of public/private interaction, the partnership of local and foreign companies in financing projects in Bulgaria for the success of the economic reforms in the country.

- On July 7, 2000 Dr. Ilko Semerdzhiev, Minister of Health, spoke the characteristics and perspectives of the healthcare reform in Bulgaria. The discussion touched upon the financing of the healthcare sector, the provision of emergency medical services, medical research and education. A special emphasis was put on the new role of healthcare professionals, especially that of physicians on general practice. Dr. Semerdzhiev also noted the need for transformation of the currently state-owned hospitals into corporate entities which could be privatized in the future.