

Economic Program

1999 Highlights

The major thematic priorities that dominated the work of the Economic Program in 1999 were:

- Continuation of CSD's efforts for the implementation of a long-term program to promote the core principles of corporate governance in Bulgaria. The program has evolved through the last couple of years and the Corporate Governance Initiative was officially launched in the beginning of 1999. Its main component was a project on "Establishing Corporate Governance in an Emerging Market: Bulgaria", supported by the Center for International Private Enterprise (CIPE), Washington D.C.
- Exploring the effects on social policy of the implementation of the Currency Board in Bulgaria. This effort was based on the "Social Implications of the Introduction of the Currency Board in Bulgaria" Project, implemented with the financial support of SOCO program of the Vienna Institute for Human Sciences.

The major aspects of the work of the Economic Program in 1999 could be summarized in the following categories:

I. Facilitating the implementation of modern corporate governance principles: Corporate Governance Initiative for Bulgaria

The Corporate Governance Initiative (CGI) was officially launched in April 1999. CGI is a coalition of Bulgarian NGOs aimed at facilitating the adoption of relevant corporate governance standards and procedures that would ensure transparency and accountability in the economy. The coalition was established by the Association of Industrial Capital, Association of Voluntary Pension Funds, Center for Economic Development, Investors' Union, Securities Holders Association and CSD (www.csd.bg/cgi). The activities of the CGI in the second half of 1999 were sup-

ported by CIPE and were focused on the development and the public endorsement of a Policy Recommendation Paper on corporate governance.

Shortly after the official launch of the CGI, a Task Force of ten experts from state institutions and NGOs was formed to draft the **Policy Recommendation Paper**. The main objective of this document was to outline a consistent set of policy and legislative measures (an action agenda) that would help develop the institutional and market infrastructure of corporate governance in Bulgaria.

The next step in the CGI process was a **Policy Workshop**. Conducted on July 13 at CSD, it brought together approximately 50 participants at expert level (members of the CGI Steering Committee, the CGI Task Force, Bulgarian and foreign experts, and rep-

representatives of state and international institutions). The main function of the Policy Workshop was to solicit expert comments and suggestions on the corporate governance development agenda and consider the specific viewpoints of the major stakeholders. The draft Policy Paper was presented by Professor Bistra Boeva, Member of the Bulgarian National Securities

Commission and Head of the CGI Task Force. Workshop participants made a lot of suggestions focused on the issue of guaranteeing equal treatment to all shareholders, the responsibilities and motivation of boards, corporate governance problems of holding companies (former privatization funds), and on the management of the residual share of state ownership.

Action Line 8.

Non-regulatory Mechanisms for Improving Corporate Governance

Background

The problems of corporate governance cannot be solved by only improving the regulatory framework. Even in countries with highly developed corporate governance and developed capital markets supported by good legislation and long-time practice, some corporate governance problems are not solved by law. This is done by means of social rules - professional, moral, ethical, etc., which, along with the regulatory framework, create common rules for conduct of shareholders, creditors and managers of a company and other interested parties.

Objectives

Improve corporate governance through energetic action of nongovernmental organizations and professional associations of shareholders and managers.

Recommendations

Organizations supporting the present initiative (among them the Union of Investors, the Association of Securities Holders, the Association of Industrial Capital, the Bulgarian Economic Chamber, the Bulgarian Stock Exchange-Sofia, the Bulgarian National Securities Commission, etc.) should, either jointly or separately, carry out proper campaigns among their members to explain the problems of corporate governance and methods for their solution. Such campaigns might include publication and dissemination of proper materials, organization of a series of seminars.

Elaboration and adoption by business associations of "codes of conduct", rules and procedures related to corporate governance.

Dissemination of information on successful practical initiatives at joint-stock company level.

**Corporate Governance Initiative for Bulgaria:
Policy Recommendation Paper**

The CGI **Policy Forum** was conducted on November 30, 1999. More than 60 representatives of public and private institutions, international organizations, businessmen, academicians and journalists attended the Forum. The final version of the Policy Recommendation Paper on corporate governance was presented and publicly adopted at the Forum, which reflected the consensus reached among the principal institutions and stakeholders.

Many of the recommendations, outlined in the Policy Paper, were later incorporated in the Law on Securities adopted by the National Assembly in December. Representatives of the international investment community showed considerable interest in the corporate governance problems in Bulgaria. Foreign participants voiced their

support for the Corporate Governance Initiative and made valuable suggestions concerning the forthcoming implementation of the Policy Paper.

At the First Investment Forum for Southeastern Europe, October 19-20, 1999 in Sofia, CGI was invited to participate in the plenary session on "State and Corporate Governance. Cooperation between Public and Private Sector." CGI members presented the paper "Corporate Governance and Control in Joint-Stock Companies in Bulgaria" and distributed it in 500 copies among the Investment Forum participants.

In order to **widely disseminate the CGI findings and recommendations** CSD drafted a Glossary of Terms on Corporate Governance and Capital Markets. It contains approximately 300 entries and



Speakers at the Forum (left to right): Mr. Douglas Dryden, Executive Director and Member of the Board of Directors, United Bulgarian Bank; Dr. George Prohaski, Chairman, Bulgarian Stock Exchange, and Director of the Center for Economic Development; Mr. Jean-Marc Peterschmitt, Director, Bulgaria, European Bank for Reconstruction and Development; Mr. Alexander Bozhkov, Deputy Prime Minister and Minister of Industry; CSD President Dr. Ognian Shentov; Prof. Bistra Boeva, Member of the Bulgarian National Securities Commission, and Mr. Stoyo Nedim, President, Securities Holders Association.

was reviewed by leading Bulgarian experts in the field. CGI members also prepared a set of training materials to be used during lectures and specialized seminars on corporate governance at the University of National and World Economy (Sofia), the Sofia University Economic Department and the Varna Economic University. The main topics to be discussed at the seminars with students included equal treatment of shareholders; protection of shareholders' rights; disclosure of information; board responsibilities; capital market and corporate governance; regulations on residual state ownership.

II. Social Consequences of the Implementation of the Currency Board in Bulgaria

The major goal of this one-year project implemented jointly with the Sociological Program of CSD (Vitosha Research) was to develop a system of indicators to assess the impact of the Currency Board on the social protection of the population. The research approach included several components: 1) identifying the specific implications of the Currency Board on the social protection system by analyzing the existing statistical and regulatory information for the past ten years; 2) testing the findings and working hypotheses of the preliminary analysis by submitting them for discussion at public events and workshops dedicated to this topic, and 3) exploring expert opinions using focus groups as an analytic tool; 4) using a national representative survey in order to quantitatively estimate the specific impacts of the currency board.

The findings of the project helped identify the most vulnerable social groups for whom rigid financial discipline and government spending reduction had meant declined personal incomes and

lower living standards (long-term unemployed, low-income pensioners, single parent and extended families). Under a currency board, the ways for improving of the social status of the population should be found only within the available, limited financial resources. There is a need for more effective distribution of the available funds, strict adherence to the principles of social solidarity and balance between the social security contributions and the benefits received. The introduction of the currency board in Bulgaria has only speeded up the delayed reform of the social sector and helped adjust it to the modern standards.

The final report prepared under the project was presented at the conference "Social Consequences of the Currency Board" (June 24, 1999). The conference initiated a broad public discussion focused on the research finding and conclusions. Conference participants recognized the practical value of the study for the adjustment of social reforms to the new economic realities in Bulgaria.

III. International Business Club Meetings

Since its establishment in 1993, the International Business Club (IBC) has provided opportunities for high-ranking public officials and policy makers to meet senior foreign diplomats, trade envoys and representatives of the international business community. Exchange of views and comments on topical political and economic issues took place during the four meetings IBC organized in 1999:

- March 16, 1999. Guest speakers were Mr. Stefan Sofianski, Mayor of Sofia and Mr. Antonio Vigilante, Resident Coordinator, United Nations, on

Priority Investment Projects of Sofia Municipality.

- May 27, 1999. Guest speakers were Mr. Martin Zaimov, Deputy Governor of the Bulgarian National Bank and Mr. Stoyan Alexandrov, Chairman, Association of Commercial Banks, on the *Denomination of the Bulgarian Lev and its Impact on the Economic Development of the Country.*
- July 9, 1999. Guest speakers were Mr. Ventsislav Varbanov, Minister of Agriculture, Forests and Land Reform and Mr. John Grant, Mission Director USAID on the *Main Priorities of Land Reform and Agricultural Development in Bulgaria.*
- November 30, 1999. Guest speakers were Mr. Mario Tagarinski, Minister of Public Administration and Mr. Richard Stagg, Ambassador of the UK, on the *Reform in the Public Administration in Bulgaria.*



From left: Mr. Ventsislav Varbanov, Minister of Agriculture, Forests and Land Reform at the International Business Club.

IV. Publication of the CSD Monitor



In 1999 two issues of the CSD Monitor were published in English and Bulgarian. The Monitor covered all major CSD activities and events: research and advocacy in the field of corporate governance, establishment of the Legal Reform Initiative, drafting legislation on e-commerce and electronic signature, accession to European Union, book donation, etc. The publication was widely distributed to Members of Parliament, government officials, media, municipalities and international donors.