

# Economic Program

In line with CSD's mission the main objectives of the Economic Program in 2004 were:

- to inform public economic policy in the field of informal economy
- to promote business integrity and the principles of good corporate governance
- to build capacity for horizontal accountability at the local level.

The program was also instrumental in expanding the local knowledge for development through setting up and running the Sofia Distance Learning Center of the World Bank's Global Development Learning Network.

## 2004 Highlights

### *Informal Economy*

In 2004 CSD published the book *The Hidden Economy in Bulgaria*. It summarizes more than four years of extensive study of the theoretical and practical implications of informality on Bulgaria's economic development. It is a preferred reference point for anyone who embarks on the subject in Bulgaria – from academics to policy makers.

### *Corporate Governance*

CSD continued to promote the principles of business integrity, good corporate governance and ethical standards with respect to their importance for the capital market development, growth of new firms and attracting financing for investment projects. CSD's publication *Corporate Governance in Development* reviews the major events, practices and problems, related to corporate control in Bulgaria during the 2002 – 2004 period.

### *Horizontal Accountability and Enterprise at Local Level*

In 2004 CSD initiated and launched together with 19 representatives of the biggest investors and education institutions in the city of Sofia and the Mayor's Office a new public – private initiative: the Sofia Economic Council. The purpose of the Council is to make the city part of the global network of modern, dynamic and attractive centers for entrepreneurship, business, work and education. The Council seeks ways to improve business participation in public policy decision making, enhance the city's horizontal accountability and enterprise creation.

### *Business and Legal System*

In 2004 together with an international research team CSD started a series of studies into the effects of the legal system on the way business is done in Bulgaria. The first round of research was presented to policy makers and the

members of the judiciary in Sofia at an international conference, which gave further practical insights for reform.

### *Distance Learning*

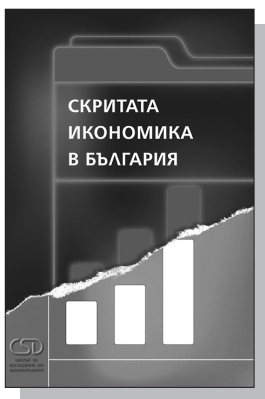
In 2004 CSD became a host to the first Bulgarian Distance Learning Center of the Global Development Learning Network (GDLN). The Network is an initiative of the World Bank and unites such centers in over 60 countries in the world. The Center offers a range of possibilities for videoconferencing and online learning on an array of development topics. By means of modern technology this initiative presents easy and extensive access to global education and knowledge sharing. The facility greatly enhanced CSD's capacity and capability to build bridges of knowledge to and from the outside world.

## **I. Informal Economy**

According to international estimates the share of the hidden economy worldwide accounts for 10-12% of global GDP. In the transition economies of Central and Eastern Europe, however, hidden economy reaches one fourth of GDP. Economic analyses show that if the share of the hidden sector exceeds a critical level (around 50% of GDP) it changes the competitive "rules of the game" in the whole economy. In Bulgaria the tax burden, ineffective law enforcement and administrative barriers to businesses are the main factors stimulating informal economic

activities. These are some of the findings in CSD's new book *The Hidden Economy in Bulgaria*, which came out in 2004.

Under the *Coalition 2000* anti-corruption initiative, CSD gathered experts from the National Social Security Institute, the Bulgarian National Bank, the National Statistical Institute and the Agency for Economic Analyses and Forecasting to come up with a sound and comprehensive analysis of the causes and consequences of the hidden economy in Bulgaria and to provide an array of possible policy solutions in different areas of the economy. The publication presents the latest trends and challenges of the hidden economy to the private and public sectors. It describes the various manifestations of Bulgaria's hidden economy and assesses its size, scope and characteristics through six different methods. The publication gives a broader view of this phenomenon in Bulgaria for the past four years and assesses specific socio-economic characteristics (labor market, domestic production, tax and social security system, black economy). It also underscores the necessity of international cooperation in the area of hidden economy. The



*Cover of the book The Hidden Economy in Bulgaria*

authors conclude with recommendations for improvement of the legislative and regulatory framework for the business and its implementation.

The Economic Program disseminated more than 400 copies of the book *The Hidden Economy in Bulgaria* to partners, libraries and government institutions. It continued its contribution to the Informal Economy thematic page on the Bulgaria Development Gateway (<http://www.bulgaria-gateway.org>).

In 2004 CSD expanded its international network of hidden economy expertise to share acquired knowledge and to stay on the cutting edge of international developments in this domain:

- In August 2004 the Center organized a series of working meetings with Prof. Edgar Feige, an internationally recognized scholar on informal economy from the University of Wisconsin-Madison. The meetings touched on the latest academic achievements on issues related to measuring informal economy, defining firms' non-compliant behavior and the role of informal, formal and capital networks in doing business in a transitional context. Particular focus of the meetings were sampling techniques, self-selection biases, and determinants of supply and demand of non-compliant behavior targeted at tax evasion and acquisition of public or private procurement contracts;
- In September 2004 experts from the Center took part in the **Sixth International Colloquium on Cross-Border Crime: Crime and Economy and Crime Economy** in Berlin. It centered on revealing the links between legal and illegal entrepreneurs, the vulnerability of the legal economy and the ways to counteract organized business crime – issues pertinent to Bulgaria's present level of development. Developing expertise in the field of criminal (black) economy expanded the Center's capacity in the field of hidden economy and gave it new insights for public policy development and action support;



*From left to right: Dr. Ognian Shentov, Chairman, Center for the Study of Democracy, Mr. Todor Yalamov, Project Coordinator, Center for the Study of Democracy, Prof. Edgar Feige, University of Wisconsin-Madison and Mr. Ruslan Stefanov, Project Coordinator, Center for the Study of Democracy*



*From left to right: Mr. Pencho Penev, Director, National Institute of Justice, Mr. Didier Chabert, Premier Conseiller, Deputy Head of Mission, Embassy of France, Mr. Anton Stankov, Minister of Justice, Ms. Liubka Ilieva, Deputy Chief Director of the Supreme Court of Cassation, Ms. Margarita Vassileva and Mr. Thierry Delpeuch, researchers from the French National Centre for Scientific Research (CNRS) and the Group for Analyses of Public Politics (GAPP) at the international conference Justice, Financial System, Business*

- In November 2004 CSD together with an international team of experts and scholars organized in Sofia the first of three international conferences on **Justice, Financial System, Business**. It was part of a larger effort to study *Reforms of the Regulating Institutions in the Context of Transition to Democracy, European Integration and Globalization*. The event was dedicated to judicial system and banking sector reforms in countries such as Italy, Belgium, France, Brazil, Bulgaria, Hungary, Indonesia and Singapore. These reforms were a focal point of development of democratic economic institutions in these countries. In Bulgaria, as well as in other countries, the size and form of the hidden economy and its interactions with the formal social

institutions are shaped to a very large extent by the influence of the systems of justice and banking.

## II. Corporate Governance

The past two years have witnessed the almost full completion of the privatization process in Bulgaria and the rising importance of the private sector and free markets. The rules by which private governance and control are exercised have come under various tests of real life competition and markets. Upholding sound principles of corporate governance is a prerequisite for the long-term health and growth of the private and public sectors in the country.

In 2004 CSD explored the dynamic developments in corporate governance of the past two years to ensure early warning for emerging positive and negative trends and to enhance the systems of corporate control in the national economy. CSD prepared and published the book *Corporate Governance in Development: Bulgaria 2002-2004*. It pinpoints the latest developments in the legislative framework for corporate governance, information disclosure and governance transparency, as well as corporate social responsibility. The authors give analytical insight into the terms and instruments of trade of the booming stock exchange market of 2004, and provide a critical review of, what is emerging as, the Bulgarian corporate governance model. The book also examines the achievements and omissions in the corporate governance legislative framework during the period 2002 – 2004. Further on, the researchers analyze the characteristics of the Bulgarian shareholders and corporate organization and the relations between the members of the board of a company and the company itself.



Cover of the book *Corporate Governance in Development: Bulgaria 2002-2004*

The authors demonstrate the need for social and responsible corporate governance. The book was prepared

by a CSD led team that included representatives of the Bulgarian Parliament, the Financial Supervision Commission, the Bulgarian Stock Exchange, private banks and academics. They built up on the efforts of the Corporate Governance Initiative of Bulgaria and the White Paper on Corporate Governance in South Eastern Europe.

### III. Horizontal Accountability and Enterprise at Local Level

Horizontal accountability, as opposed to vertical, represents the system of civic checks and balances that enables the proper functioning of the democratic system and free markets. It is essential to building a democratic society and is instrumental to a competitive free entrepreneurial economy. Horizontal accountability is vital at the local level where businesses and civil society groups work most closely with the local authorities to enhance society's prosperity. One of the major activities in progress of CSD in 2004 was the creation of mechanisms for horizontal accountability in the city of Sofia, Bulgaria's capital.

On January 28<sup>th</sup> 2004, on CSD's initiative, the Mayor of Sofia, Mr. Stefan Sofyanski, hosted the inauguration meeting of the Sofia Economic Council – a public-private partnership that aims to enhance the capital's economy. The Council comprises of representatives of the biggest private sector employers and investors in Sofia's economy (including the largest higher-education institutions). The purpose of the Council is to make the city part of the global network of modern, dynamic and attractive centers for entrepreneurship, business, work and education. Every year the Council will present a *Sofia Competitiveness White Paper* to the Mayor and the Municipal Council. The Paper



*From left to right: Mr. Ognian Shentov, Chairman, Center for the Study of Democracy, Mr. Ruslan Stefanov, Coordinator of the Economic Program, Center for the Study of Democracy, Mr. Minko Gerdjikov, Deputy Mayor, Sofia Municipality, Mr. Stefan Sofianski, Mayor, Sofia Municipality, Mr. Assen Dyulgerov, Municipality Councillor*

shall compare internationally Sofia's economy, business environment, human capital and innovation potential.

To strengthen the Sofia Economic Council's institutional capacity CSD organized two study workshops with a peer organization in the United States – the Federal City Council of Washington D.C., a prestigious association of 200 top business, professional and civic leaders involved in promoting the development of the U.S. Capital. In April 2004 a delegation headed by the Mayor of Sofia, Mr. Sofianski, participated in a round table discussion *Democratic Governance in Bulgaria: Using Public-Private Partnerships to Advance Economic Reforms* at the Federal City Council. The delegates shared experience and advice on good local governance with U.S. peers. Mayor Sofianski met with the Mayor of Washington D.C., the Chair of the Federal City Council and the Executive Director of the Center for International Private Enterprise to exchange ideas on

democratic city governance. The visit was used by the CSD team to learn more about public-private partnership at work and to study the way such initiatives perform effectively.

The visit was returned by Mr. Kenneth Sparks, Vice President of the Federal City Council in Washington D.C. who visited Bulgaria in September 2004 on invitation of the Mayor of Sofia and the Center for the Study of Democracy. He held talks with the Mayor on how to enhance Sofia's economy and delivered a lecture on public-private partnership in municipal development to the Sofia Economic Council. Mr. Sparks presented his 20 years of experience as head of the Federal City Council.

CSD was also active in assisting the improvement in local administrative governance in Sofia in the area of licensing, registration and permit regimes. A working group, set up by CSD, drafted a *Report on Good Governance of Business Regulations and*

*Licensing in Sofia*, which included an evaluation of the existing procedures and recommendations for streamlining. The Report revealed that the most burdensome regimes in terms of time and money implemented by the Sofia Municipality and its 24 districts were (1) registering a commercial outlet; (2) obtaining a building permit and a subsequent (3) permit for use of the newly built facility. The team estimated that just the eliminating of the commercial outlet registration regime would result in BGN 73 mln (US\$ 45.6 mln) of direct savings for businesses or 0.75% of the city's GDP. The regime was effectively removed in 2005.

#### IV. Distance Learning

In recent years traditional forms of obtaining and sharing knowledge such as seminars and discussions, had been enhanced by new interactive technologies such as videoconferences

and the Internet. CSD stays on the cutting-edge of these developments to enhance its mission through the most advanced technologies available. In 2004 CSD joined the family of the Global Development Learning Network (GDLN), which unites over 60 countries all over the world and set up the first Bulgarian distance learning center. The GDLN was established by the World Bank to support sustainable development and the overcoming of poverty in transition and developing countries by creating and expanding their possibilities for training, exchange of knowledge and dialogue among specialists, engaged in development issues. As a part of this initiative since March 2004 CSD has accommodated a Distance Learning Center (DLC), which offers opportunities for videoconferencing and distance learning. Through the DLC the Bulgarian policy community and society gained access to the pool of cutting-edge expert knowledge in international education centers at a very low cost.



*From left to right: Mr. Ruslan Stefanov, Coordinator, Economic Program, Center for the Study of Democracy; Mr. Minko Gerdzhirov, Deputy Mayor of Sofia and Mr. Kenneth Sparks, Vice President of the Federal City Council in Washington D.C.*

The Center is open to public servants, businesses, universities, and NGOs. They use its services and technology to access world knowledge and to communicate with partners and experts all over the world. Some of the issues,

most recently covered by the Distance Learning Center's videoconferences, included seminars on *Business Regulation and Enforcement of Market Entry and Governance for Young Leaders in Eastern European Countries*.



*Dr. Ognian Shentov, Chairman, Center for the Study of Democracy (left) and Ms. Lydia Shouleva, Deputy Prime Minister and Minister of Economy during the official ceremony for launching the Distance Learning Center*