

Implementing Policy Change: Policy and Legal Environment for the Growth of the SME Sector in Bulgaria

In October, at the request of the representative of the United States Agency for International Development (USAID) in Sofia, CSD initiated a process to produce a recommendation paper addressing the policy and legal constraints facing small and medium size enterprises (SMEs) in Bulgaria, and to identify a set of possible solutions to encourage the growth of this key sector of the economy. The main purpose of this policy paper was to set out a specific and comprehensive agenda for an assistance program in this area.

Building upon its experience and extensive network of contacts, CSD started a process of development of the SME policy paper which consisted of two stages of consultations. Each stage was completed by a public discussion at CSD. The first stage included the initial drafting of the paper and consultations at the expert level. The second stage aimed at providing bi-partisan political support for the policy agenda outlined in the paper and endorsement of its priorities by policy makers from across the political spectrum.

I. The Process

1. Stage One: The Expert Level

Networking

At the outset of the drafting process, CSD put together two task force groups of experts to write the economic policy and legal sections of the paper. The final, monitoring section was initially drafted by CSD's Director of Research. With a view to adopting a comprehensive approach in the paper, CSD con-

tacted a number of Bulgarian and international institutions, involved in the development of SMEs, with a request to provide suggestions and comments to the paper. As a result, the paper reflected a variety of viewpoints and experience thus ensuring a consensus on its recommendations.

The first round of consultations was held at the expert and civil service level including independent experts, deputy ministers and heads of ministerial departments, representatives of other government agencies and leaders of business associations. The paper was presented to over 50 experts and government agencies, business associations, research NGOs, trade unions, international and foreign donor organizations and individual SMEs. Special attention was devoted to including the perspective of Bulgaria integration to the European Union, particularly the provisions on SMEs in the Europe Agreement and the EU definition of SMEs.

The Policy Workshop

The first stage of consultations was completed by a policy workshop held on November 20, at CSD with representatives of the organizations involved in the preliminary consultations. Following an introductory plenary session, the workshop continued in two separate sessions — on economic policy and on the legal and institutional environment. The discussions were moderated by members of the task force. A final plenary session was devoted to the discussion of a monitoring system presented by Alexander Stoyanov, CSD Director of Research.

2. Stage Two: the Policy Makers Level

Networking

Following the workshop discussions, members of the task force groups and CSD experts held individual meetings with a number of policy makers who had been invited to participate in the forthcoming Policy Forum. The draft paper, amended as a result of the expert discussion, had been circulated in advance together with some background information about the objectives of the Forum. During the meetings, the experts provided additional clarification on the action lines as well as on the overall context of the drafting exercise. Believing that in order for the paper to provide an agenda of a feasible long term assistance program it needs to enjoy widespread support among politicians and the business community, CSD

consulted representatives of the major parliamentary parties, the government, the governor of the National Bank, leaders of business associations and trade unions to comment on the paper and take part in the forum discussions. By enlisting the support of key political figures and institutions in advance of the Forum, CSD managed to build a consensus for the agenda which is a key prerequisite for its successful implementation.

The Policy Forum

The policy forum was held on November 29 at the conference hall of CSD. Following some introductory remarks by CSD's President, Dr. Ognian Shentov, Mr. John Tennant, USAID Representative and Ms. Rose Likins, Charge d'Affaires at the US Embassy presented the Implementing Policy Change Program. In his address to the Forum, Mr. Petar



(left to right) USAID Representative Mr. John Tennant, President-elect of the Republic Petar Stoyanov, Ms. Rose Likins, Chargé d'Affaires of the US Embassy to Bulgaria and Dr. Ognian Shentov presided the SME policy forum.

Stoyanov, President-elect of the Republic of Bulgaria, expressed his support for a program encouraging the development of the private sector in Bulgaria, and particularly SMEs.

The first session of the forum was chaired jointly by Mr. Atanas Papparizov, Minister of Trade and Foreign Economic Cooperation and Dr. George Prohaski, Executive Director of the Open Society Fund-Sofia and discussed the economic policy recommendations of the paper. The second session, dealing with the policy and legal environment for SMEs was chaired by Mr. Atanas Zhelezchev, Deputy Chair of the National Assembly. The concluding part of the forum included a presentation by Mr. Alexander Stoyanov and Professor Zahari Karamfilov, Chairman of the National Institute of Statistics on a system monitoring the state of the SME sector and the implementation of the policy agenda outlined in the paper.

II. The Paper

Three sets of recommendations (“action lines”) are presented in the paper:

- economic policy;
- legal and institutional framework;
- monitoring system.

Economic Policy Recommendations

The economic destabilization and deterioration of the Bulgarian business environment has seriously restricted the development of the SME sector. While such macro-economic failures affect all private enterprises, the impact on the SME sector is compounded due to its general inability to access capital and information. The policy paper is intended to provide a guideline for officials to adhere to when developing the overall plan for the country so that the proper recognition of the important role of SMEs in the development of the Bulgarian economy is included. The success

of Bulgaria’s SME sector is essential to the development of the economy as a whole. Foremost, SMEs are capable of creating many new jobs at low costs. These jobs will be necessary to absorb new unemployment created by restructuring formerly state-owned enterprises.

The paper identifies a set of action lines aimed at providing a basis for a comprehensive and coherent action plan for promoting the growth of this key sector of the economy. The first group of action lines addresses the development of the SME sector vis-a-vis the stabilization and improvement of the Bulgarian economy including:

- development of an anti-crisis program;
- development of a strategy for accelerated, full-scale privatization;
- development of a national strategy for mobilizing domestic investment and attracting foreign capital;
- implementation of measures designed to increase the absorption capacity of the country with respect to international SME support programs;
- tax measures;
- actions against shadow economic and criminal activities.

Further, recommendations focus on implementing a consistent, long term strategy for the creation of the appropriate environment to promote SME development and for the attainment of competitive power and European standards. In particular, the actions foresee:

- building of an institutional infrastructure for encouraging and supporting SMEs;
- implementation of a consistent policy of support measures and relieves for SMEs;
- development of a program for the financial assistance and relief;
- development of a foreign economic policy for the attraction of government support for the SME sector.

Recommendations to Improve the Legal and Institutional Environment

This action line includes recommendations aimed at:

- improving the implementation of existing laws affecting small and medium size enterprises;
- drafting additional laws for SMEs;
- improving the institutional framework for small and medium size enterprises and enhancing the institutional efficiency.

The Bulgarian Parliament has passed a number of laws relevant to the activity of SMEs that have not been effectively implemented. Failure to implement the laws has been due to lack of relevant experience among implementing officials and representatives of SMEs, the lack of institutional framework to support the laws and legally fixed implementation procedures that slow down the process. In all such cases, SMEs suffer due to the inability of institutions and the private sector to implement, or act under, laws that are the result of already existing political consensus in society. Thus, appropriate actions should be taken towards implementing existing and non-implemented legislation with each sector, private and public, doing their part to become educated about how new laws function in order to obtain the desired results.

Furthermore, regardless of many steps taken towards creating an enabling environment for SMEs, there are still a number of laws that need to be drafted in the near future. In drafting such laws, special attention should be paid to two factors:

- stability of the legal system should be preserved as much as possible in this process which implies change and motion;
- special attention should be paid to prevent the passage of retroactive legislation which represents the worst form of legal instability.

Particularly, new legislation should take into consideration that Bulgaria has

signed an Association Agreement with the European Union and has adopted a policy towards approximation of its internal legislation with EU law. The paper does not intend to propose an exhaustive list of laws that need to be drafted in order for the legal framework for SMEs to be completed but rather to suggest important pieces of legislation which are necessary for the development of the SME sector. These include foreclosure, leasing, consumer protection, electronic commerce, trade mark, government procurement legislation, as well as specialized SME legislation.

Finally, this action line proposes measures to improve institutional efficiency. In many cases high quality legislation fails to have a positive impact on the relationships governed by it. This is due primarily to inefficient and non-uniform implementation by the relevant agencies. Thus the paper proposes the creation of standardized operating procedures, including the use of standardized forms.

Monitoring System

In light of the proposed recommendations, a monitoring system is of principal importance for the success of an SME development strategy. The objective of this action line is to design and implement a comprehensive monitoring system to determine whether or not policy recommendations are being administered and enforced and, ultimately, if the desired level of success has been achieved. The system would perform at least two functions:

- to monitor the direct impact of policy decisions and to assess the effectiveness of policy change efforts in the SME sector;
- to provide relevant vehicles (based on analyses and relevant data) to decision makers that would both inform them of developments in the SME sector and provide support for policy change.

The paper is published in both English and Bulgarian.

International Business Club

The International Business Club (IBC) is a joint initiative of CSD and the Ministry of Trade. It was formally inaugurated on June 17, 1993 by Mr. Valentin Karabashev, Deputy Prime Minister and Minister of Trade, in the presence of ambassadors, diplomats and trade envoys to Bulgaria, along with bankers, and managers of local and international companies.

The principal objective of IBC is to encourage business contacts, to popularize business opportunities in Bulgaria, and to promote a favorable development of trade and foreign investment. Since its conception in 1993, IBC has organized 26 breakfast meetings to which it has invited cabinet ministers, MPs, managers of financial institutions and private businesses as guest speakers.

The speakers of the IBC meetings in 1996 were:

- Mr. Lyubomir Filipov, Governor of the Bulgarian National Bank, on February 22;
- Mr. Stefan Sofyanski, Mayor of Sofia on April 5;
- Dr. Lyubomir Dachev, Deputy Minister of Education, Science and Technology, on April 14;
- Professor Zakhari Karamfilov, Chairman of the National Statistical Institute, on June 6;
- Mr. Vesselin Blagoev, Executive Director, Privatization Agency, on October 18.

Members of 42 diplomatic and trade missions to Bulgaria, along with 10 international organizations and foreign companies based in Sofia have attended the International Business Club to date. Bulgarian businessmen and bankers are regular visitors too.



Sofia Mayor Mr. Stefan Sofyanski (left) spoke before the International Business Club members in April.