



GOVERNANCE IN THE TRANSITION ECONOMIES: CURRENT ISSUES IN BULGARIA

November 2002

Prof. Bistra Boeva
University for National and World Economic Studies
Sofia, Bulgaria

Introduction

Developing sound principles of governance in emerging markets has been one of the top issues for local reformers and international organizations in the last decade. Various questions concerning the role of governance and its contribution to the reforms in the developing countries have been raised by policy makers, scholars, business leaders and stakeholders on both national and international levels. However, transition economies continue to face problems in establishing good governance mechanisms.

Problems persist in the transition of ownership and the changing role of the State in creating a new type of relationship between the state, society and business. The ongoing reforms in these economies have created a new framework for business activities, one in which respective economic, administrative, information and legal instruments have not automatically lead to a market democracy, or to the establishment of governance institutions. In reality, governance issues have to be addressed independently - as an important and a separate part of the transition process. The State and society should both be actively involved in the process of building new institutions and the mechanisms of governance.

Governance deals with the relationship between the State, society, business and other stakeholders. This relationship did not exist in a planned economy and must now survive the challenge of corruption, bureaucracy, over regulation, drawbacks in exercising legal, executive and judiciary powers and the lack of democratic values. Given different economic, social and political environments, transition economies follow different paths towards governance reform.

In Bulgaria, politicians and government officials initiated anticorruption measures and started dismantling administrative barriers while some NGOs tried to affect the relationship between citizens, the business associations and the government. However, these initiatives do not address the fundamental issue of establishing an adequate system of checks and balances for the market democracy. The effectiveness of these initiatives in building governance systems has been unfortunately low. The success of a good governance practice is determined by the implementation of a broad range of rules and norms, with which the State and society comply in the developed market economies.

Good Governance in Market Democracies

The system approach towards the establishment of governance requires both policy-makers and stakeholders to have a coherent vision about the essence of governance and the mechanism of checks and balances. The current practices in democratic societies suggest a variety of views and definitions about what governance is and what are its basic norms.

According to the Commission on Global Governance, governance is the sum of the many ways individuals and institutions manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated, and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance as well as informal arrangements, that people and institutions either have agreed to or perceive to be in their interests.¹ “Governance comprises the traditions, institutions and processes that determine how power is exercised, how the citizens are given a voice and how decisions are made on issues of a public concern,” states the Canadian Institute on Governance.² And according to the white paper of the European Union, governance means “rules, processes and behavior that affect the way in which powers are exercised at the European Union level, particularly as regards openness, participation, accountability, effectiveness and coherence.”³

These definitions reveal the broad range of views on the nature of governance. From the perspective of the governance agenda in transition economies, these definitions could be considered not only a theoretical, but also a practical milestone, indicating the main components and objective of governance. It is important for the policymakers, businesses and stakeholders in the transition economies to be familiar with the basic principles of governance. While the definitions vary, the core of governance evolves around the ideas of openness, accountability, partnership and coherence. For example, the Asian Development Bank focuses on: transparency, predictability, accountability, strategic focus, efficiency and effectiveness, and participation.⁴ Every single principle sets out norms and standards for behavior of the respective governments and the society as a whole.

Government compliance with the principles of openness and transparency and free flow of information to the business and community in a simple and easily understandable way is vitally important to the practice of good governance. Openness requires the participation of society at large in the political and policy-making process from conception to implementation. In countries with well functioning governance mechanisms, it means obligatory consultation of the executive and legislature with businesses and society in the course of any important legislative and political decisions. This openness has been a key element in public administration reforms in many OECD countries as well. Openness and transparency also require accountability to be truly effective.

Accountability sets out well defined and balanced duties and responsibilities of the three branches of power: executive, legislative and judiciary. Openness and transparency require governments to inform society about their activities, achievements, and problems, generating a

public demand for efficiency and effectiveness. This demand, in turn, promotes the supply of public goods according to clear cut objectives, based on analyzed past experience and the assessment of future impact. In many developed market economies, compliance with the principles of effectiveness and efficiency drive the establishment of the cost benefit analysis as a part of the elaboration of legislative and executive initiatives.

Good governance in practice is more than just a set of definitions. It is about institutions that are embedded in the political, social and administrative infrastructure of a country. Governance is a system of norms, of checks and balances for a partnership between the State and society within the framework of a market democracy.

Table 1
Issues in State Governance⁵

Basic Characteristics	Features	Measurement
<ul style="list-style-type: none"> Process by which governments are selected, monitored and replaced. 	A. voice and accountability B. Political instability and violence	
<ul style="list-style-type: none"> Capacity of Government to formulate and effectively implement sound policies 	A. Government effectiveness B. Regulatory burden	A. 1. Quality of public service 2. Quality of bureaucracy 3. Competence of civil servants 4. Independence of civil servants from political pressure 5. Credibility of government commitments B. 1. Price controls 2. Inadequate bank supervision 3. Perception of burdens imposed by excessive regulation in areas such as foreign trade and business development
<ul style="list-style-type: none"> Respect of citizens and state for institutions that govern economic and social interactions. 	A. Rule of Law B. Fraud and Corruption	A. 1. Effectiveness and predictability of the judiciary 2. Enforceability of contracts 3. Fair and predictable rules form the basis for economic and social indicators B. 1. Measures of perception of corruption 2. Measures of the use of public power for private gain

A practical model provides a more concrete approach towards governance than the theoretical assumptions. It helps guide policy makers, businesses and stakeholders through the process of establishing governance institutions in transition economies. For instance, the right to vote takes various forms and shapes. The basic right to vote is combined with the right of business and society to participate in important economic and political decision-making. In turn, the State creates effective structures for these discussions and minimizes transaction costs and barriers to entry. The establishment of effective institutions contributes to the success of economic and social developments. The importance of a formalized system of transparency and accountability is evidenced by the improvement of the quality of services provided by the State, and by the increase of access of society and business to public information provided by the State.

A practical model also helps to identify needed measures to counter the undermining effect corruption. Business regards corruption as a tax or barrier to entry into the market, while to society, corruption is associated with limited public expenditures for education and health. Corruption limits participation of the poor in the decision-making processes and it limits the development of good governance practices.

Finally, it is important to point out that the approach towards governance, that the model promotes, is important from both theoretical and practical aspects. For policy makers, it means a broader framework for establishing the institutions and norms of democracy. For businesses and society it means a better mechanism of checks and balances that positively affects relations with the State, and also protects their rights and interests. The holistic approach reveals that effective governance also contributes to sustainable economic development. Governance is seen as the ability to keep social peace, to guarantee law and order and to promote economic growth. This makes the establishment of good governance in transition economies a priority for still ongoing reforms.

Transition from a Planned to a Market Economy

Bulgaria has been moving from a planned to a market economy for the past decade, making tremendous changes in terms of privatization, reducing state intervention in economic and social life and in building the institutions of a democratic market economy. These reforms are allowing Bulgaria to start to integrate into the European Union and into the global economic infrastructure. The fundamental changes in economic, social and political life have led to the establishment of the basic principles of governance, but it is important to point out that the building of governance institutions was not a priority for policy-makers at the beginning of the transformation process.

The need for reforms and the lack of adequate rules for the market democracy drove the activities of policy-makers, NGOs and other stakeholders towards the establishment of governance institutions. The theoretical model of governance and the achievements of good governance practices in democratic societies turned out to be a useful benchmark in order to address the question of the status quo of governance in Bulgaria. Various NGO's and think tanks that support institution-building, are analyzing Bulgaria's progress in this regard to answer

the questions: What is the status of governance in Bulgaria in the second decade of reforms? And what issues still need to be addressed?⁶

One issue identified by the Bulgarian business community are bureaucratic barriers in working with government agencies. New businesses face a huge number of administrative obstacles in licensing. The government has responded to this problem by abolishing 74 licensing regimes and simplifying 120 others. While Bulgaria seeks to further harmonize its legislation with EU standards, the business community expects new difficulties with the licensing regimes due to the lack of adequate legal measures and weak cooperative dialogue between business and policymakers. Both local and foreign business groups support abandoning the burdensome system of licensing.

The other issue is the lack of a formal system of consultation between government and business. Frequent changes in the legal framework are also a problem that creates a barrier for economic activity because of difficulties in complying with the law. The Bulgarian business community believes that the lack of a standard system for consultation between stakeholders and respective executive and legislative powers causes a lot of these difficulties. Corruption also continues to be a problem despite many anti-corruption measures approved by policy makers and the business community. Again, the cause is an inefficient administrative systems and drawbacks in the judiciary system.

These conclusions are supported by my own analysis of the basic principles of governance: transparency, accountability and efficiency. This survey analyzed how governance principles are viewed by the government and the business community and found that some of these basic principles were violated. A serious criticism of the government by the business community was due to a lack of transparency and limited access to information produced in the various government agencies. A new social code created in 2002 was also seriously criticized by the biggest employer associations in the country, who accused the government of a lack of respect for their rights and interests.

While the analysis suggested the continuing need to develop governance institutions in the country, positive trends have been reported as well. Current government initiatives to establish a market democracy in Bulgaria include:

- A national anticorruption strategy
- A modern administrative system
- Internet based government, or E-Government
- The establishment of a national council for economic growth, which would include government officials and the representatives of the biggest employers associations in the country.

From the perspective of governance, a national council for economic growth represents an example of a formal system of consultation between government and the business community.

The council for economic growth would address crucial issues for the business community, as well for society.

It is expected that these and other similar activities will contribute to the establishment of institutions of governance in the country. The process of building governance mechanisms is a long and a continuing one, requiring commitment from both the State and society. It requires that certain issues be addressed including the lack of consultation between the executive and the legislature and inefficient and burdensome legal norms.

The lack of legislative norms also hinders the implementation of good governance principles. Despite legislative reform introduced in the mid 90s, the legislative system is still accommodates some laws written during socialism. A law providing norms and requirements for the law-making process that does not establish a formal system for vertical consultations with stakeholders and only requires horizontal consultation with the respective ministries and state agencies leaves almost no opportunity for the public to be heard by the authorities, resulting in negative impact on the quality of laws and the stability of the national legal framework. However, while reform is needed, frequent changes of laws can also cause unstable legal environment and risks.

In many instances policy-makers ignore the interests of the parties that are directly affected by the laws and regulations they draft. One example is the adoption of the tax laws at the end of 2001 in which the state agency ignored the business community's opinion on amendments to the tax legislation. This lack of consultation between the State and business caused social tension and required changes in the freshly adopted laws.

The solution lies in accelerating the process of embedding the norms of good governance in Bulgaria's economic, political and social environment. This could follow different scenarios, but which scenario is the adequate one in terms of the long term orientation of the country?

A more realistic scenario

Good governance in market democracies has to be a priority for policy-makers in transition economies. Opinions differ on the practical and reasonable measures, which have to be initiated for this practice to become a part of the economic, political and social life in the counties moving from a socialist system towards a market economy. In Bulgaria a realistic scenario includes:

- A systematic effort by all powers toward the establishment of the institutions of modern governance.
- Continuing the reforms of the administration.
- A balance in policy-making priorities between economic, political and social initiatives.
- The introduction of efficient good governance practice such as cost benefit analysis and improved consultations.

It is important to combine both the long term objective, or systematic approach, to building governance institutions with the short term objective of introducing some governance efficiency methods. The adoption of the cost-benefit analysis (CBA) by the executive and legislative branches of the government is currently implemented by many governments. And while opinions differ on the advantages and disadvantages, CBA is a progressive technique that requires an analytical and prudent approach in the various stages of the decision-making process, including:

- A detailed and concrete analysis of the problems, caused by the state regulation.
- A full assessment of the costs of implementation of proposed legislative or executive initiatives.
- A full assessment of the benefits of proposed legislative or executive measure for society, stakeholders and the business community.

In fact, CBA promotes the “economization” of the State’s activities. It improves the quality of decisions and guarantees transparency and stability of the executive and legislative measures. For the transition economies, which are often short on qualified human resources in the State administration, CBA analysis mitigates subjectivism, corruption and supports the capacity-building process. While one cannot underestimate the drawbacks of this method, irrespective of the existing disadvantages, the implementation of CBA will support the functioning of basic governance principles such as accountability, transparency and efficiency. The people's confidence in governance institutions will be strengthened.

Another opportunity for the establishment of governance institutions is the building of a well structured system of consultation between the executive and legislative branches of government on one side, and the business community, stakeholders and society on the other. Good governance practices show that a well built system for consultation promotes the principles of transparency, accountability and coherence.

A system of consultation that provides for the involvement of society in the decision-making process is a better guarantor of market democracy, especially in comparison to old type cronyism. From the perspective of governance, these consultations are a more reliable institution that more accurately represents the opinions of society. New democracies in transition countries must develop their systems for consultation at the same time as they develop a legal framework for lobbying. In transition economies all players have to cooperate on the establishment of governance institutions.

In Bulgaria there are many business associations, but only some of them actively advocate for governance principles. Some associations only defend the interests of a few companies in specific sectors and not the interests of the total population, and in some sectors of the economy there are no business associations at all. This heterogeneous situation is not an exception and thus the future of governance has to be a product of both government and a wide cross-section of the business community and society. In some cases, the State may take a more proactive role in this process as determined by the nature of the transition.

Conclusion

Efficient governance requires resources, commitment and will that are carried out by the State, the business community and other stakeholders. Transition economies have to follow their own path in the establishment of governance institutions. While the good governance practices of developed economies suggest models and examples, the final decision about how to embed the principles and norms of governance is to the discretion of the State and the society in transition economies. The establishment of governance is a part of their hard work for sustainable development and growth of these economies.

¹ Commission on global governance www.cgg.ch

² The Institute on Governance, Ottawa, Canada

³ White Paper on Governance, EU, 2000

⁴ Asian Development Bank

⁵ The table is elaborated by the author of the paper, based on: Kaufman D.A., Kraal Pablo Aido-Lobaton, G Governance Matters, Policy Research, Working Paper 2196, Oct. 1999.

⁶ "Bulgarian economy in the First Quarter of 2002," Centre for economic development June 2002; and "Bulgarian Economy in the Second Quarter of 2002" Centre for Economic development, September 2002