

Government policy and the gray economy

Centre for social practices – Sofia

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The Matrix

From the first stage of the project¹ (2001-2002), together with the many participants (scientists, lawmakers, the central government, local government, businessmen, and journalists) we defined the following positions, which strongly influence the decision of entrepreneurs to be “white”, instead of “gray”.

A. Definitions

We reached agreement on the following three categories of “unofficial economy”. *First*: the informal economy (home-made food supplies, exchange of goods – although paid – between neighbors and relatives, etc.). This economy we do not take to be a huge problem needing our focusing on it. *Second*: the black economy – illegal profit through exchange of illegal services and goods (drugs, prostitution, etc.). This economy is the problem of the law enforcing organs, not us. *Third*: the gray economy, which we defined as illegal or semi-legal exchange of services and goods, which by themselves are not illegal. This is the economy that interests us in this case.

B. Goal

We defined the position of “dealing with the gray economy” as “reaching the condition, in which the gray economic practices make up one of many problems, not the main problem blocking development”. The goal of public and state efforts is, according to us, to reach a position, in which the businessman starting a venture, without giving much thought (and this should be a self-evident everyday position of things) chooses to follow the path of legality (and not as in the current situation, waver and ponder, before following the paths of legality or the gray economy).

C. Framework propositions for interactive policies

These are propositions for a concrete policy. They are different from the philosophies commonly developed by the government. This is so, because the “Matrix” is the product of shared discussions including the addressees of the legislation – those, who will be expected to comply. Though this approach we fit completely into one of the requirements of the EU towards Bulgaria: a legislation that is discussed and harmonized in respect to the civil society and the experts, before being produced and enforced.

1. Simple, known and predictable legislative environment. This means that one case, appearing at different times in different places, is to be resolved in one, obvious to everyone way.
2. Easily accessible, simple and friendly administration, which provides services; the “one booth” system; abundant, accessible and understandable information for citizens’ use.
3. Simple, known and permanent tax environment stimulating “white” behavior.
4. Obvious permanent and strong will of the government to uphold its economical policy – whatever it may be.
5. The following of the rules by every subject of the economy.

¹ See our book “The Gray economy in Bulgaria”, CSP – CIPE, Sofia 2002.

6. Access to credit.
7. A stop to the punishment of the employer for being one (i.e. for him not to be taxed for the creation of new jobs, not to be unjustly squeezed for insurance, not to be forced to pay wages larger than their real cost and/or over his financial capabilities).
8. Corruption behavior to cease being more profitable (in terms of time and money), than legitimate such.
9. Simple and non-saturated licensing and patent environment.
10. Orientation towards policy of after-emptive (not pre-emptive) control, towards a registration-oriented (instead of permit-oriented) regime, towards silent agreement (instead of permission).
11. A just tax environment (i.e. not giving special treatment to separate subjects, which creates distortions), created on the basis of priorities for development.
12. Those, who must follow the rules to be party to their creations, to be affiliated with them and follow them and defend them from criticism.

In the first months (the second half of 2002 – January 2003) of work on the current project the situation in the country began changing. Gradually the context of gray economy issue was rearranged. Changes became apparent not only in spheres directly connected to the issue (licenses, taxes, etc.) but also where the connection is more basic and was not regarded as problematic in the period before 2002.

Around the end of 2002 a strong feeling became apparent in Bulgarian society focused on the perception that the state is no longer capable of the basic functions of a state – the upholding of an impartial, but effective order based on the law. The citizens no longer felt secure, able to plan into the future, society lost the conviction that the state order is effective. The first to suffer from such a state of things are the businesses – those who risk a lot in order to have significant results tomorrow. The lack of strength in the government resulted in the following: lobby interests managed to impose a whole list of privileged business and industries, according to which the government passed laws. This happens though direct government subsidies (farming for instance), new protective tariffs and preferential treatment of an expanding circle of industries.

This return of the state into the sphere of the economy creates a new inequality of the subjects; a nomenclature of patronized subjects and encourages a not-quite market behavior, or, in the least, the seeking from the side of businesses of ways of entering politics (and not bigger profits and better marketing for instance). The intermingling of business and policy as always gives stimulus for corruptive and gray practices. On top of all this, faced with falling revenues, the government concentrates (in the budget for 2003) on collecting the maximum amount of money, and not on stimulation of legitimate businesses. Due to these new developments, we are forced to add two more points to our “matrix”:

13. Trust in the state order
14. The climate of enterprising initiative (including the issue of the “price” of legitimate business)

The contents of the Matrix

Since 1997 the governments declare their plans to carry out policies in this direction (except maybe points 7 and 12). This in itself is good, it shows a permanent consensus on the principles of market economy. We can hardly imagine the return of times, when employers were called “blood suckers”, as said by the socialist Prime Minister Jean Videnov in 1996. On the other hand, the act of carrying out the stated goals leave a lot to be desired. Changes become less and less visible and felt; the time limits scotch ever further into the future.

Preliminary conclusion

As it happens in such cases, the reading of large amounts of documents gives in the end one coherent picture on the attitudes, goals and capacity of their authors (in this case – the government of the UDF /Union of Democratic Forces/ to the year 2001 and the government NMSS /National Movement Simeon the Second/ from 2001 on). Pictures of this kind show us what we can, and what we can not expect.

From this point of view:

The UDF government

- Strong centralized will for enforcing own agenda on the given situation.
- Policy of direct involvement of the state in the investment and economic processes.
 - Thoughts and actions in the framework of the “large”: macro-frame, infrastructure, big businesses, the persecution of the big centers of unwanted illegitimate power (Multigroup). Strong inclination for expropriation of resources for redistribution by the state, rejection of decentralization (example – municipal budgets).
 - Lack of real focus on small and medium sized firms due to lack of will for examination of small issues. After 1998: development of policy for the stimulation of small and medium sized firms through gradual lowering of taxes, reform of administration, reducing the part of employers in funding the security of the employees. But also reverse actions: the taxation of new jobs, retrospective taxation of artisans.
 - Focus on organized crime according to the ideology, that once crime is defeated, the problems of corruption and the gray economy will solve themselves, or at least with little effort from the state.
 - Centralization, administration of big projects and tying of leading political subjects with economical interests (the so-called “clientelism”) creates, at the end of the mandate, a relatively long lasting system of “shadow” economical practices.

The NMSS government

- Starts with two different proclamations. The *first* is towards the electorate and puts emphasis on state regulation, expropriation of resources by the state, redistribution, administration, preferential dealing, etc. In relation to the gray economy policies of this sort give birth to an ideology of compulsion. The *second* is towards the businesses, and puts emphasis on the

withdrawal of the state from the economy, the freeing of resource for private initiative and the citizens, decrease of administration, liberalization of the market relations. In relation to the gray economy such policies give birth to an ideology of positive stimulus.

- The NMSS lacking the will of the previous government, keeps wavering, indecisive on which path it should pursue in its economical policy. This gives birth to a packet of initiatives that are contradictory in character and perceived on a piece-meal basis.

- Thus, conditions are created for the entrance of organized interests and lobbies into the process of policy-making, and government actions increasingly reflect the prevalence of some groups over the others.

- Due to the weakness of the political system during the time of the NMSS government a contest for the gathering of resources (power, finances) is taking place. A contest between institutions, authority and between those inside them. This practically stops administrative and judicial reforms, which worsens the conditions for “coming out into the open” of shadow business.

- Towards the beginning of 2003 the government has began trying to improve this situation, walking a path typical for the region of more state, more control, more administration, expropriation of resources and promoting state economic and investment projects.

- This trajectory puts government policy into the first category of promises (populism, redistribution, and administration). This is taking place on the back round of continued lack of capacity for the formation of wholesome, organized strategies, their realization and the producing of the expected results. In the process of expansion, the administrative system becomes more and more complicated and easily penetrated by organized interests.

- Such practices carry the seeds of non-transparent (shadow, corruptive) practices, because they force units of the economy to seek non-market paths to success.

- The perspectives for lessening the gray economy during 2003 are therefore not the best possible. In order for the state, with a package of effective policies to bring under control the shadow businesses, the state itself must decrease the shadow parts of itself (as we have stated back in 2002, for a shadow economy to thrive a shadow state is needed, as the two maintain each other). In the beginning of 2003 the tendency seems to be for shadow territories in the state to be on the increase, in the context of constant change of power relations between various organized interests (contrary to the comparative balance in this respect achieved in the time of the UDF).

In the beginning of 2003 most observers share the conclusion, that we are faced with a new period of the growth of the shadow economy. According to the yearly report of the Bulgarian chamber of commerce (BCC), during 2001 the gray economy has grown by 30% in respect to 2000, and the tempo of gray growth in 2002 compared to 2001 is 21%. According to the Bulgarian National Bank the gray economy takes up 30% of the GNP (with 17% in the countries of OECD, 29% in Central and Easter Europe and around 45% in ex-soviet republics); most expert agree on figures between 30-36% of the GNP. According to the representative of the World Bank in Sofia, the figure is rather at least somewhere around 35-37%.

Development according to the points:

1. Simple, known and predictable legislative environment. One case, appearing at different times in different places, is to be resolved in one, obvious to everyone way
 - The importance of the “whitening” of economical activities is understood by the UDF in the middle of their mandate. As a stated engagement it is accepted by the government of the UDF in 200, and after that by the government of the NMSS.
 - The UDF accepts the engagement of “the simplification of the administrative and legislative environment.”
 - The blocks created by a dysfunctional judicial system on the enforcement of contracts are internalized by the government of the UDF after the statement in the yearly report of the EU on Bulgaria. The government of the UDF was not capable of formulating the constitutional blockage of the system: the wrong place of the public prosecutors office (a system in the judicial authority answerable to no one). Not until 2002 was the political will (mainly by the NMSS) for reform formed, in relation to moving the public prosecutor into the executive branch of authority; but this is followed by a noisy failure of the government and a war of nerves between the judicial and executive authorities, which is sending signals of insecurity to the enterprising businessmen.
 - As with all other laws, those concerning economical activity are passed while still half-baked, after which they are patched up on a frequent, piece-meal basis. There are examples of attempts to make laws work retrospectively, like when in 2001 there was an attempt of additional retrospective taxation of professions, already paying patent. The NMSS majority changes laws due to lobby or concrete political interests (as with the change, according to which the minister of youth does not have to have a degree in anything; another change, according to which a deal attacked in court can still remain effective).
 - No government has undertaken an analysis of overt lawmaking (= state intervention) in the business sphere. Only the NMSS government has undertaken (but has not fulfilled it) an engagement to re-think the state actions in private citizen such.
 - A giant blow to the predictability of the business environment was dealt by the NMSS government with the judicial decisions on stopping the Bulgartabak deal and the investigation of the BTK offers. This is due to the inexperience of the governing, who have passed a law obliging the court to evaluate the economical expediency of already concluded privatization deals.
 - The common opinion of experts is that the legislative initiatives of the NMSS suffer from a chronic shortage of inner logic and concrete philosophy, tied with the sought for result. The new laws, although declared to be made for the sake of simplification, bring the opposite result – new, more complicated and difficult for the businesses systems are being constructed, adding new levels of control.

- Basically, while with the aim of fighting corruption, the new procedures being more complicated give additional power to the corrupt bureaucrats, who thrive most successfully in complicated legal environments. Examples of this were published (Capital weekly, 14-20 December 2002) with regard to the increasing gangsterization of the wood production industry.
- The lateness of laws needed by the businesses for planning are no less destructive than their frequent change, or their lack of inner logic. An example of such lateness is the end of 2002, when lack of clearness on the changes in the law on drug stores and medicines that were declared to be coming soon prevented the pharmaceutical industry from planning its production into 2003 and after.
- Energetic lawmaking is not the best thing to do for the stimulation of legal business practices. According to the yearly report of Coalition 2000 the issue of the gray economy is to be decided not by producing newer and newer laws, but by “ensuring transparency and the fast enforcement of existing rules.”

2. Easily accessible, simple and friendly administration which provides services; the “one booth” system, abundant and understandable information for citizens’ use.

- According to the yearly report of the EU for Bulgaria there exists a clear connection between the improvement of the administration’s work and the shrinkage of the “informal sector”.
- The lack of administrative capacity is a topic growing in intensity in the EU report since 1998.
- The engagement for modernization and simplification of the administration is undertaken by the UDF government in the beginning of its mandate. Although it reported some progress (and twice took money from the EU and World Bank for this very reason), in the end of the UDF mandate there are no changes in the administrative works, and the topic continues to worry the EU. The law for access to information foresees access to information no later than 14 days after the initial request.
- The engagement is also taken by the NMSS, combined with a promise to restrict the expenses of the administration, but no such tendency is seen in the published budgets and is explicitly said not to exist by the IMF.
- Pilot reforms of the administration and the introduction of the “one booth” system as well as other systems has been started in some progressive municipalities (Sevlievo, Gabrovo, Veliko Tarnovo) starting from 1998.
- About corruption, in October 2001 the government of the NMSS undertook the engagement to create a “modern law framework of administrative practices... clear reglamentation of the relations between the state organs on one side and the private sector and the citizens on the other.
- The idea of an administration that is friendly to business is dealt a mortal blow in the beginning of the mandate of the NMSS, by the

words of their ally Iliya Pavlov (RIP - gunned down on the street on March the 7th) - ("from now on when I speak to a minister I want him to say "yes") and during the mandate itself by lobbying, the return of the more visible forms of corruption and unwarranted influencing on decision-taking.

- According to the World Bank (Oscar de Brun Kops) reform of the administration and introduction of anti-corruption policies has yet to happen
- The administration continues its resistance against the law for access to information, even though up to the end of January 2003 all citizens with denied access to information win their lawsuits against the state.

3. Simple, known and permanent tax environment stimulating "white" behavior

- Constant change in the tax environment continues to be the main bugbear of the businesses.
- In principle, since the denomination, the tendency has been of gradual lessening of the taxation in every republican budget. The NMSS has promised a "tax revolution" of immediate and dramatic reduction in taxation. What has rather happened, is a continuation of the gradual reduction began by the previous government.
- Since 1998 the direct taxes are falling and indirect taxation is on the rise = limiting the possibilities for gray actions. But constant change in the tax environment continues, undermining any idea of predictability.
- Due to the yearly panic (due to ineffective, subsidy swallowing healthcare, education, government enterprises, etc.) about the republican budget the governments tend to think how to fill the treasury, not how to stimulate businesses.
- NMSS has continued the engagements of the UDF government to simplify the process of charity.
- The tax official continues to have the power to define every single case – similar cases are being resolved differently – failure on point 1.
- There is tax relief for opening up new jobs in chronically unemployed regions.
- According to the IMF there is a visible decrease in honest tax paying in 2002, and the trend looks set to continue into 2003. The official statistic says that only 2 to 3 000 people in the country pay the highest income tax, while 1 million workers declare their incomes to be 130 leva (around 65\$).
- A positive development is that in 2003 enterprises register with VAT with 50 000 leva turnover, not 75 000 as was before that, but still many businesses remain in the shadow because the state administration "does not have the capacity" to register so many businesses and leaves them without tax credit.

4. Obvious permanent and strong will of the government to uphold its economical policy – whatever it may be.

- Up to a certain point the government of the UDF demonstrated a strong and permanent will to keep up good macroeconomic readings; such will was not demonstrated towards the enterprising sector and the supply side as a whole.
- The engagements of the NMSS are in the area of reform of the supply side for the stimulation of the entrepreneurs and the employers, no concrete macroeconomic engagement is verbalized.
- In spite of all governmental engagements since 1998 the part of the GNP of the gray economy has not fallen significantly and according to most experts is between 30 and 40%. . Perhaps the units wholly existing in the gray side have diminished in number, but as most units are there some of the time, the percentage does not change significantly.
- The question of trust is obviously still unresolved, as only 337 firm are in the register of small and medium enterprises.
- With the continuation of the NMSS mandate the perception of the favoring of state enterprises is being strengthened. An example is one state firm declared for privatization, (Varna shipbuilders), which was sold to another state firm (“Bulgarian Sea Fleet”).
- The tax approach of NMSS continues favoring specific large firms and specific regions, including the unprecedented (for the developed world) system of stimulating employers through food vouchers.
- NMSS continues giving various state subsidies to 80% of the population (according to the IMF), this burdens additionally the tax payer and demotivates legitimate behavior on the labor market.
- The government does not have the capacity to bring to the businesses the information on the actions it takes on their behalf. According to “Alpha research” 35% of the entrepreneur have no knowledge of such actions, 54% think that these actions benefit the bigger firms, 13% are convinced that the government policy is faulty and 11% point at positive effect coming from it.
- All independent observers note the continuing lack of two key factors for a successful government policy towards the gray economy: strategic thinking and coordination between the different institutions, whose job is to maintain order and law.

5. The following of the rules by all private and state subject of the economy

- The UDF government did not manage to convince the public that it has put its weight behind this principle. Towards the middle of the mandate the obvious clientelism together with media attacks with regard to corruption undermined the conviction of society that rules are being obeyed, and that anyone who does obey them is not on the losing side.
- The obvious lobbying in the NMSS mandate and preferences to specific businesses has not reassured the public that rules are to be obeyed and carry equal weight for everyone.

- As the corruption in the custom has not fallen significantly, most traders continue going around the rules, putting additional pressure on those who do not – they look like the losers.
- In the 2003 budget the subsidies have grown by 87.1 million leva, reaching 392.3 million, centered on the five priority fields: energy, communications, farming and forestry, tourism and transport. This leaves the other industries in a disadvantaged position, including such (furniture production, textiles) with real successes on the international market (they in fact will be sponsoring the “five priority industries”).
- The sum of the policies of the last two years of UDF government and the first two years of the NMSS government is a retreat of the state from the position of non-interference and stimulation of growth through the establishment of simple, transparent and effective rules of the market game. Instead of this the government has chosen direct interference distorting the market, stimulating the businesses to seek development on the basis of connections with administrators and politicians, not on the basis of effectiveness and competition.

6. Access to credit

- There is no such permanent /serious engagement from the UDF government, which concentrated mainly on the macroeconomic framework.
- As a result of hyperinflation, for years the banks did not have the interest, nor the resolve to give credits. In the last year they do credit, without reaching the legal ceiling which was put in place due to the hyperinflation. The overall level of crediting is still low, but is the fastest growing thing in the Bulgarian economy.
- The lack of working judicial system, together with the cumulative effect of the existing legislation and administrative practices (favoring the receiver, not giver of the credit) keeps the banks from crediting.
- The NMSS undertook precise engagements concerning crediting (interest free 5000 leva for all “initiative taking Bulgarians”) and low interest loans of 10 000 leva. This did not take place, and in the end NMSS started imitating the microcrediting system of George Soros, backed by a mere 25 million. To the beginning of 2003, 1 500 such credits were given the overall amount being 15 million. Business plans are not being credited, there are no government engagements for developments in this direction. While credits are being given, it can not be said, that there is a system for giving and collecting loans, there are separate (independent) practices by separate bank in separate cases.
- According to the BCC in 2002 (and due to reasons not connected with the local business environment) the trade banks have given only with 35% more credits than last year; this makes up 15.7% of the GNP with normal figures being in the region 40%.
- According to the yearly report of the EU on Bulgaria “crediting of the private sector is very weak”.

7. A stop to the punishment of the employer for being one (i.e. for him not to be taxed for the creation of new jobs, not to be unjustly squeezed for insurance, not to be forced to pay wages larger than their real cost and/or over his financial capabilities).

- The UDF government introduced taxation of newly opened jobs = it did not stimulate “white” activity.
- The UDF government took on the engagement of to lower the security-paying burden of the employers from 80:20 (the 80 being from the employers side), to 55:45 in 2007. In a budget developed by the NMSS government the current situation (75:25) is to be kept for the next two years (with a previously undertaken engagement of reaching 70:30 in 2003).
- The NMSS government levied tax on the cubic meters of the workplace (2002) = creates problems for the employer expanding his business (or just making a more conformable place for his workers).
- In the 2003 budget the taxation of new jobs is stopped and employers opening new up jobs in areas with low employment are stimulated.
- In the 2002 it is obvious, that a big part of the payments between employer and employee continue to be hidden, as the official statistics read that the average wage in the private sector is lower than in the budgeted one. To solve the problem the NMSS government introduced (incl. budget 2003) minimal levels of security payments and registration of all work contracts. The effects are expected to show themselves in 2002.

8. Corruption behavior to cease being more profitable (in terms of time and money), than legitimate such.

- Neither foreign nor Bulgarian organizations register any significant decline in readiness for corruptive action from 1998 to now. Ambassador Pardu (Sten Ask and others): “corruption and organized crime are far in excess in both visibility and influence”.
- Neither the UDF’s nor the NMSS’s governments have visible progress in fighting corruption. The all too visible lobby’s in the midst of the NMSS is perceived by the public as corruption = there lacks a conviction, that there is enforcement from “the top” with regard to curbing corruptive practices.
- In spite of the effective control and reporting started by the reforms of Radev (UDF), the small economic units are still not against corruption if it makes maneuvering in the vague and complicated tax and licensing environment more effective.
- In August 2001 Gfk-Bulgaria published the results of a (the best yet) research, according to which only 5.6% of the people would notify the appropriate organs about corruption, and over 75% think the whole country corrupt.

- According to the yearly report of Coalition 2000 the government has some success in deconstructing the state of affairs of the clientelist system of corruption, diverting resources towards political parties. This however does not lead to the direct gain of the entrepreneurs, because the weakening of the party presence – combined with a lack of effective systematic struggle of the state with corruption – just replicates the lack of answerability in the corrupt bureaucrat at a lower level – where he meets the specific economic unit.

9. Simple and non-saturated licensing and patent environment.

- The engagement to decrease the amount of permit licensing regimes is constantly taken up by the UDF and NMSS governments.
- Both governments expand the scope of the patents arguing that this is done for the lowering of the tax burden, the simplification of the environment and the betterment of its predictability as a stimulus for initiative.
- There is no period of significant reduction of the licensing and permits burden: some are revoked, others take their place.
- A difficult visibility due to dispersal of the right to license and give permits between different institutions (incl. ministries and municipalities).
- What will be the effect if the engagement of Milen Velchev is carried out on the point of taking away from the municipalities the right to issue permits in order for this to be done by ministries?
- In 2002 the NMSS government takes on the engagement to eliminate 74 of the existing on a central level 360 regimes and the simplification of another 120. To the end of the year no one, not even the EU has any data on the progress in this direction.

10. Orientation towards policy of after-emptive (not pre-emptive) control, towards a registration-oriented (instead of permit-oriented) regime, towards silent agreement (instead of permission).

No comprehensible data

11. A just tax environment (i.e. not giving special treatment to separate subjects, which creates distortions), created on the basis of priorities for development.

- The tendency of reducing direct taxation started by the UDF government was reversed by the NMSS with the 2003 budget. Basically increasing direct taxation is a stimulus to sink into the “gray area”.
- According to the research of IME (Institute for Market Economy), the tax policy of the NMSS government in the 2003 budget demotivates the “middle class” – i.e. the initiative taking spine of society – because everyone with a 1000 leva income, pays at the end of the month in various forms 555 leva to the state. Under the 2003 budget the worker receives under 60% of the value of his work

12. Those, who must follow the rules to be party to their creations, to be affiliated with them and follow them and defend them from criticism.

- Since 2002 this is a specific requirement of the EU, and Bulgaria is being evaluated yearly on this basis.
- Under both governments the Three sided council for cooperation exists and functions. The attempts of the economic units in the Vyzrazdane (“Rebirth”) club to gain priority influence over the NMSS government have failed to disrupt the state of things
- For the first time in the practices of the Bulgarian governments we witness at least the beginning of the consulting of the legislation in the phase of its planning, which is a breakthrough, compared with the previous practices. Should this become a practice for effective partnership (not as with various questions related to NGO’s – discussion without any change as a result) and not grow into successful lobbying by particular interests, the development of such a process must become a state and social priority.

13. Trust in the state order

- The wave of killing, reaching its peak with the killing of the public prosecutor Nikolai Kolev (in the end of 2002) shocks public opinion and creates a feeling of insecurity for the law abiding and untouchability for the law breakers. The top public prosecutor feeds the fire by saying at prime time (19th January) on the national television that he has not heard a bad word about himself from the underworld, while all his enemies are in the judicial system. Most political leaders and media speak of a “crisis of statehood”, which adds to the prevailing climate of uncertainty, that the state is able to enforce order and protect its citizens from violence.
- The feeling of the weakness of the state is fed by the collision between the judicial and executive authorities on one hand, and the collision inside the judicial authority (between court and prosecutors office) on the other. Incriminations flow from all sides.
- As during the other transitory period of this sort (the middle of the 90-ties), such insecurity is a stimulus for sinking into the gray economy. With lack of faith in the state, businesses and economical units are looking for protection (and enforcement of contracts, etc.) elsewhere. There is a high risk of gray behavior growing into criminal such, due to the coexistence of business with criminal groups necessary made necessary by the weak state.

14. The climate of enterprising initiative (including the issue of the “price” of legitimate business)

- The sharp decline of foreign investments in 2002 is in itself a sign that the business circles do not regard the climate in the country as desirable. This conclusion is also valid for internal investments, but is more difficult to measure and evaluate.
- The NMSS governments intentions to revise all privatization deals made before the summer of 2001, shared by the public prosecutors office creates insecurity in property.

- This creates precedents of the sort when the “Chimko” factory, bought by the American firm IBE Trade (with engagements of \$50 million in investments) is revoked and subsequently bought through unclear procedures by a Bulgarian offshore company registered in Cyprus.
- All researches show a steep rise (the majority, at the end of the year) of sentiments among the population rejecting the direction the countries development has taken, including free trade. This process coincides with the unfolding nostalgia for socialism and centrally planned economy. In a research carried out by the CSP in the summer of 2002, entrepreneurs confide that they feel oppressed by the overall atmospheres of their towns.
- In a sharp interview in the end of 2002 the American ambassador James Pardu voiced the picture as seen from the outside: “the problem is in the system, in the business environment in Bulgaria... The influence of organized crime is strong... Companies must know that deals will be kept, that they will get objective court rulings or that competition will be fair and open... There is a lot of laundering of dirty money going on in Bulgaria.”
- In the 2003 budget the tendencies of actions driving businesses into the gray economy are on the increase. All taxes from monopolized providers of services (garbage, telephone, electricity, etc.) are increased; taxation of interests on bank credits is reinforced; the excises on liquid fuels are increased, new administrative taxes, etc.
- The purchasing abilities remain low, adding incentive to seeking ways of keeping prices low in the gray economy. According to the IME things being as they are, people will continue bending backwards to pay small amounts for equally small prices (and enter thus the gray economy).
- The inclination of the NMSS government to choose their own huge investment projects reflecting political, not economical dividends, creates the fear in businesses, that again resources will be taken from the population for government needs. From this point of view the engagement of the government to finish the building (frozen in 1993) of the nuclear power plant Belene is worrying.
- The profits of legitimate behavior are being shaken as an idea by the rise of dubious business figures in public status (after a brief period of lying low in the period 1997-2000). Namely: Vasil Bozkov –the Skull, favoured by the NMSS government by the lowering of excises on gambling (2001) and the raising of the level for registration of duty-free currency shops (2003), who in the beginning of 2003 states that he will be “going into the energy business”; Denis Ershov, deported from Bulgaria as a risk to national security, who in 2002 managed to form a majority in the stakeholders meeting of Eurobank; Michael Chorni, also deported as a risk to national security, whose offers for purchasing Bulgartabak are declared to be most favored by the court (which ruled against the winner of the bidding - consortium of Doiche bank); MG corporation (Multigroup) favored in its tourist business by the act for licensing tour operators and tourist agencies (September

2002). According to the firms in the branch, actions of this sort are typical examples of counterproductive measures: instead of creating simple market rules, the state interferes directly to stimulate a specific business, creating this way new problems instead of solutions.

- According to the yearly report of the EU on Bulgaria “the entrance and leaving of the market still does not function correctly, although things are getting better... The entrance of the market is still made difficult by many permission procedures, which slow down the creation of new enterprises and engage considerable resources in both the trader associations and the state administration.”