

# **INSTITUTE FOR MARKET ECONOMICS**

Series of papers

*Review of the Bulgarian Economy*

## **BUSINESS ASSOCIATIONS IN THE CURRENT BULGARIAN ENVIRONMENT**

on the joint project *Strengthening Bulgarian Business Associations*  
financed by **CIPE**

**by**

**Krassen Stanchev, Ph. D.**

\*\*\*\*

**November - April 1996  
Sofia**

\*\*\*\*\*

**Copyright © 1995  
Institute for Market Economics  
55 N. Rilski Str.  
1000 Sofia, Bulgaria  
tel/fax: (3592) 818 487; 874 135  
BUSINESS ASSOCIATIONS IN THE CURRENT BULGARIAN  
ENVIRONMENT**

## Introduction

In Bulgaria, as in other CEE countries, we are seeing a compressed copy of the formation pattern of guilds as witnessed in the history of fourteenth century England<sup>1</sup> and twelfth and thirteenth century Italy<sup>2</sup>.

Today the private sector is very dynamic but still deeply dependent on changes in the political environment. Presumably, as soon as private property rights are established and contract enforcement is guaranteed by the legitimate public bodies, private sector dynamics will reflect market and economic constellations rather than political changes. It is possible to assume that the rate of maturity of these “environmental” phenomena constitutes the difference between business associations’ behavior in different CEE countries. Here, I am presenting the findings of the IME research on the current stage of development of the Bulgarian business community, its needs, public image and survival models.

This research is based on a set of standard and in-depth interviews (with both associations’ leaders and members), content analysis of the media, public opinion polls, field research, and analysis of founding documents of different business associations<sup>3</sup>. Interviews were conducted twice, in the beginning of the year and in the late summer. Additional in-depth interviews with leaders of the major business associations were organized in order to identify the desired future role for the associations in society. IME surveyed 750 associations (50% of all registered with the city courts).

## Background

The most usual registration under the Persons and Family Act (PFA), is that of the non-profit association. Of the total number of registered associations, only about one hundred are truly operational, i.e. provide services, have members, keep records of their activities, and so on<sup>4</sup>. The Bulgarian Chamber of Commerce and Industry (BCCI) also has been reregistered after 1989 under the PFA, which presupposes voluntary membership. But this is a *de jure* situation in a narrow sense. Reality is different. Although the Communist era Foreign Trade Act was discontinued<sup>5</sup> after the liberalization of the foreign trade regime, one provision was left in force which allows BCCI to keep the Foreign Trade Register. In addition, the European environment (the so called Continental commercial chamber model based on public law regulations and mandatory membership) has its traditional quasi-informal impact. EU countries’ consular offices in Sofia supply Bulgarian businessmen with visas if they are BCCI members. International arbitration, recognized by ICC, is a part of BCCI; BCCI provides Certificates of Origin for different export products, and, as a rule, BCCI recommendation or some terms of reference facilitate business contacts abroad.

---

1 See: *Scott, William. R. The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720*, Peter Smith, Gloucester, Mass., 1968, vol. I, pp. 2-9.

2 See: *Putnam, Robert D. Making Democracy Work. Civic Traditions in Modern Italy*, Princeton University Press, Princeton, New Jersey, p. 125.

3 Different research areas were covered by the following especially contracted agencies: public opinion polls were conducted by *Bulgarian British Social Surveys - Gallup International* (BBSS), interviews with different business associations - by the *Agency for Socio-economic Surveys* (ASA), field research and interviews with business association members - by the *Center for Liberal Strategies* (CLS) and the *Center for Social Practices* (CSP).

4 One of the reasons is that PFA contains no specific court procedure to delete an organization from the register unless a special claim is deposited with the court. Many organizations have been registered but did not start any activities, others maintain the registration without any work.

5 The Foreign Trade Act was adopted in December 1969 and discontinued in February 1989, leaving in force only Article 16 which regulates the Register.

There is, then, little room for choice, at least in the above-mentioned areas, as far as voluntary membership in the Chamber of Commerce in its current Bulgarian version is concerned. Born in the midst of enthusiasm for freedom at the beginning of the political changes, Bulgarian business associations challenged BCCI uniqueness and tried to develop similar services and networks.

### Business associations and political change

This enthusiasm for freedom, influenced by a constellation of background factors, resulted in concrete political identities and aspirations.

Simultaneously with the political changes of 1989-1990, civic groups of Bulgarian businessmen started to mushroom<sup>6</sup>. In fact, small enterprises based on individual proprietors' efforts never ceased to exist, but these individuals never sought mutual assistance during the old regime. Given the circumstances, it made little sense.<sup>7</sup> As our field research demonstrates, a sort of individualistic survival strategy is very common for Bulgarian society, and for the medium and small entrepreneurs in particular.

Bulgarian citizens never completely lost private possession of their properties. According to the census of 1985, about 80% of them used to own their flats and houses; about 45% of the urban residents owned houses in the rural areas. Seven years later, in 1992, the percentage of private house and flat owners was almost 90%, and 86% of the people who inherited land property rights lived in the big cities<sup>8</sup>. These general indicators resulted in conservative ("anti-change") and individualistic ("change OK, but not of my property status quo") public attitudes. These attitudes motivated a general acceptance of the political changes but, at the same time, necessitated a tacit consensus against any attempts at rapid economic reform. Prompt shrinkage of the public sector could, presumably, jeopardize the average man's current standard of living. In fact, in an anticipated situation of rapid economic change, the average citizen could encounter a difficult choice, for instance: to sell to risk in privatization, or to sell if unemployed.

Myriad public attitudes produced some peculiar foundations for the Bulgarian transition. What matters with regard to the business associations is the fact that Bulgaria faces problems in defining rigid lines between public and private.

An enormous amount of economic energy has been channeled to decapitalize the public sector. With the slowest pace of privatization among the CEE countries the growth in the private sector compensates for the negative trend in the public sector. The Bulgarian private sector 1994 share of GDP was 25%, according to the official (lower-end) estimate. Romania ranks next to last with its private share of GDP amounting to 35% in 1994). However, the most recent IBRD estimates -- which take

---

More than 50% of the associations were established between 1989 and 1991, only about 5% of the business associations existed before the changes.

In the late 1940s, properties (both funds and real estate) of all associations were confiscated, and their activities were canceled. In the early 1950s and later, some organizations were re-established (e.g. the Bulgarian Chamber of Commerce and Industry - BCCI, in 1952) or established anew (e.g. the Bulgarian Industrial Association - BIA, in 1982); some professional organizations were founded by sectional ministries for rather PR reasons; almost all leaving in force only Article 16 which regulates the Register.

More than 50% of the associations were established between 1989 and 1991, only about 5% of the business associations existed before the changes.

In the late 1940s, properties (both funds and real estate) of all associations were confiscated, and their activities were canceled. In the early 1950s and later, some organizations were re-established (e.g. the Bulgarian Chamber of Commerce and Industry - BCCI, in 1952) or established anew (e.g. the Bulgarian Industrial Association - BIA, in 1982); some professional these organizations are still alive, and many of them are doing well succeeding in finding proper content for their activities and providing different services after central government censorship was lifted.

Source: National Statistics Institute (NSI). Results of the December 1992 Census.

into account illegal and quasi-legal activities, as well as legal activities outside of the government tax base -- show that the private sector contributes 50% of GDP. IBRD data suggest that at least 90% of profits in the economy accrue to the informal private sector. Some Bulgarian sources offer similar estimates<sup>9</sup>, thus explaining the phenomenon of compensating the fall of output of the public enterprises. At the same time, the private sector possesses some 5% of long term assets, about 10% of the total credit, and between 1/4 and 1/3 of employment.<sup>10</sup>

In 1995, the situation has changed in the following sense. In mid-September, the Bulgarian National Bank reported the fact that loans accumulated in private "non-finance companies" exceed the total credit of the public enterprises by 12.2 billion lev. The share of total credit attributed to the private sector is 30%, while public enterprises hold 27% and the government 43%. Private sector long term assets do not exceed 40 billion lev<sup>11</sup>, while its loans from the commercial banks amount 168.8 billion lev. Practically, these loans are not collateralized. These data explain why commercial banks did not radically oppose the 1995 Cabinet's attempt to impose a sort of manual control over the banking sector which resulted in the nomination of the Prime Minister's advisors for seats on the boards of the major banks. Obviously, bank managers hope that the closer Cabinet involvement is, the greater the prospect for future government support to the respective banks.<sup>12</sup>

Naturally, in concrete terms, this situation means that the closer a business group is to the political establishment, the greater the opportunity to siphon profits. For this reason, Bulgarian businesses not only supported different political parties and politicians but have been constantly attempting to promote their own political parties or to get a seat in the legislature or in the executive administration. For five years, all attempts of a business party to play an independent role in Bulgarian politics have failed. Nevertheless, the temptation is still strong: staff-members of one of the most famous Bulgarian business associations ran last year in the general elections. The persistence of these attempts leads to the conclusion that Bulgarian businesses are still very dependent on the central government.

Virtually everyone polled by IME agreed with this assessment (90% of the business associations interviewed). In mid 1995, more than four-fifths of them believed that "in Bulgaria a business association should be committed to a political party, in order to achieve its goals." However, about 70% of them do not think it is normal. The dependence on the political establishment is the major reason for divisions (and conflicts) between business groups. The relatively larger of them failed in several attempts to set up an organization for negotiating different interests. More than half of the businessmen are convinced that "none of the parties currently represented in the legislature can solve the political problems of private sector development," and that "politics should stay aside" of private sector problems. As indicated by BBSS-Gallup International, virtually no one (4% of the nation-wide survey) from the public at large believes that protection of private entrepreneurship is a task for any of the political parties, it is rather a government task for whoever is in power.

In constitutional terms, business associations reflect an unclear distinction between public and private. Four fifths of the business associations' bylaws do not require their members to be private entrepreneurs. This does not mean that their philosophy is to protect public enterprises and to believe in public property. Obviously, they anticipate that reforms will put things in order.

---

Avramov, Roumen, Kamen Guenov. *The Rebirth of Capitalism in Bulgaria*, Sofia, Agency for Economic Coordination and Development, 1994.

Bogetic, Zeljiko and Arye L. Hillman. *Privatizing Profits of Bulgaria's State Enterprises. - Transition*, The World Bank Newsletter, March 1995.

Source: Capital Consult Ltd.

In May, the Association of Commercial Banks (ACB), otherwise considered as the most powerful business association in the country, did not manage to block a Cabinet Decree that required all public expenditures to be executed through public banks.

“Who is who?”

### ***Business associations in the eyes of the broader public***

The above-quoted IBRD data on the role of the private sector in siphoning profits from the public enterprises may create in the public mind a dangerous perception: that market reforms have been “unjust”, and that private entrepreneurs are to blame for the difficulties associated with the economic transition. Nevertheless, public opinion is far more tolerant of business associations. They are not seen as organizations whose mission is to decapitalize the public sector. The public seems convinced that the major goal of the private business associations in Bulgaria is to “break down the state monopoly in industry and trade.” The public perceives, for instance, that business associations, by a ratio of 2:1 are more concerned with the epic fight against monopolies than with money laundering. At the same time, people think that the “government should play a leading role in protecting private entrepreneurship.”<sup>13</sup>

### ***Self-esteem***

One of the most difficult issues to investigate is the self-esteem of business associations. As a rule, big nation-wide organizations believe they are self-sufficient and there is little sense in forming additional associations. Coincidentally, the number of newly registered associations has decreased every year since 1991.

One exceptional period, however, is from the end of 1994 through the first half of 1995. The situation, during this time reflected both pre-election expectations and post-election results of the parliamentary elections in December 1995. The Bulgarian Socialist Party (BSP, former communist) emerged as the winner with an absolute majority in Parliament. A number of organizations were set up *in anticipation* of shifts in economic policy related to the change in government. Typical is the case of the Association of Family Businesses (AFB) which was established in the city of Bourgas by firms that currently rent municipal property and properties subject to restitution to former owners. Founders expected to benefit from delayed privatization and the eventual cessation of restitution. The appearance of such an organization is not an exception since previous changes in government were accompanied by similar phenomena.

What is clear is the more recently an association is established, the more professional and narrow is its mission. There is a marked tendency of specialization among civic organizations set up by Bulgarian entrepreneurs, for instance. New associations, especially those established in 1994 and after, enjoy some financial support and assistance from international donor institutions, chambers of commerce, and foundations.<sup>14</sup> (This is not the case with the associations founded to meet political demands of the newly elected government; AFB and a number of other organizations were quoted during different debates at the legislature but their fate afterwards was not clear.)

There are three business associations which have the respect of both members of the associations and the broader public. Ranked according to their respective approval rates these associations are: BCCI, the Union for Private Economic Enterprise (UPEE), and BIA. Within the business community persons with higher education levels have significantly more positive attitudes towards BCCI than others. BIA enjoys a favorable predisposition of both businessmen who think of themselves as “producers” and of those who define themselves as “associations of producers.”

---

The majority of the entrepreneurs themselves, interviewed by BBSS-Gallup International in a nation-wide polling, share the opposite opinion.

IME surveys of these associations show that they are better organized and more efficient in promoting their missions.

At the same time, neither “jealousy” towards competitor organizations nor a spirit of cooperation is a dominant characteristic of ordinary members. Leaders are often critical in their assessment of rival organizations but avoid making offensive statements or sharing radical criticism “off the record.” Usually, they are proud of the role their organization presumably plays. All associations are concerned, first of all, with protecting and promoting the prosperity of their members. In general, regardless of an extremely competitive climate, there is no indication of abnormal attitudes within the business community. Competition between associations seems fair and rivalry is being comprehended as normal by both leaders and members. Given the prevailing impression of businesses’ political dependence, such self-esteem can facilitate future cooperation.

### *The 1995 Record: Apparent Failures and Incremental Successes*

The most significant event here is the establishment, on September 5, 1995, of the Bulgarian Agricultural Chamber (BAC). BAC is a successor organization to the Bulgarian Confederation of Agriculture which was founded in 1991. In fact, the formation of BAC solves an institutional problem of BCCI, which used to unite business entities of all economic sectors without any capacity to promote entrepreneurship in the agricultural sector. BAC unites 72% of the firms in agriculture and related sectors, 13 cooperatives farmers’ unions, 150 private farmers, 6 professional associations, scientific institutes and think tanks, 5 banks and insurance companies.<sup>15</sup>

Another recently formed organization is the Bulgarian Association of Trustees (BAT). Its unique mission is to facilitate implementation of bankruptcy regulations. Judging from IME survey findings, this is a high profile organization which probably will have a sound impact on economic affairs, substituting for the government as a political player in bankruptcy procedures. (Although adopted more than year and a half ago, The Bankruptcy Act is not implemented yet.)

There are signals that the business community is slowly narrowing the government’s scope of economic control. Some guilds have been very successful in establishing fair rules of the game in their respective sectors. A success story is, for instance, the Bulgarian Association of Real Estate Brokers (AREB). Earlier this year, AREB set up an information exchange between players of the rapidly growing real estate market. Gradually, AREB information services have been converted into respected Rules of Conduct.<sup>16</sup> An increased professional level of services provided by emerging guilds, as well as narrow but more elaborate mission statements, distinguish the newly established associations from those who started to operate immediately after the changes in 1989-1990.

These and other facts constitute a positive tendency which proves that businessmen are gradually, step by step, and through trial and error, finding ways to promote pro-market reforms. In 1995, the major press, including the specialized business press, is much more skillful in reporting business and economic affairs. In general, no major event has been omitted. At the same time, however, government initiatives were naturally paid greater attention, and the 1995 record of business associations and government relations resembles a chain of complete failures. As mentioned above, ACB failed in an attempt to stop implementation of a regulation that requires all public funds to be serviced by public banks. Another sad story is the failure of the major business associations to successfully negotiate with the Government the establishment of a SME Fund for which financing was available through different EU programs. In July, Parliament adopted a Securities, Stock Exchanges, and Investment Companies Act containing a provision for capital adequacy of the stock exchanges which was unsuccessfully opposed by the Association of Brokers and Dealers. In

---

BAC’s formation has been celebrated as a restoration of the Agricultural Chamber which was set up in 1912 by a special law but closed in 1946.

AREB activities have been assisted by the Urban Institute (Washington,DC) project in Sofia, funded by USAID.

September, the Government passed the Price Act<sup>17</sup> which created more sources of corruption which could harm most retail merchants. Many associations inefficiently campaigned against the draft. However difficult to prove, there is residual public recollection that business associations lost their arguments with the Government.

It is possible to draw the general conclusion that aside from tolerant competition among business associations, these associations fail to jointly address government policies that may hamper or even block market solutions to the problems the Bulgarian economy faces. Analyses of the campaigns demonstrate that business leaders advocate different policy issues rather retroactively.

### *A glance from "below"*

At the first stage of its survey, IME recognized that the best known associations but not always most efficient are those registered in the capital city of Sofia, especially those which have easy access to the central media and the press. For this reason, IME interviewed the associations' members in small and medium-sized communities at a local level.

The results indicate that BCCI, UPEE, and BIA are known, as a rule, to the business community members but not to the general public, who more generally know who the local successful businessmen are. "The big three" are famous due to their activities as sponsors and not because of their actual operations. One of the better known associations in the rural areas is the National Union of Bee-keepers (NUB).<sup>18</sup>

BCCI stands out as the best known association. Some BCCI members in small towns say they can not trade abroad unless BCCI supports their efforts. The non-business public believes that BCCI has compulsory membership. With regard to international trade, UPEE used to have a similar reputation although half of the members interviewed left the union disappointed. BIA is recognized by a restricted number of businessmen. The major difficulty the "big three" face on the local level is with their local staff and with inaccurate information on local activities, although local entrepreneurs expect greater support and advice. Local offices of the national organizations have lower rates of approval than their capital city headquarters.

To compensate for disappointment with the "central" associations, local businessmen are attempting to set up local mutual assistance groups. IME contracted researchers to investigate 12 such organizations in 25 different places in the country which constitute a representative sample of Bulgarian municipalities. Most of them are in a challenging *status nascendi*. To the extent it is possible to draw valid conclusions, the situation is as follows:

- a) these associations unite entrepreneurs from economic sectors of high local importance;
- b) usually the initiative comes from successful businessmen;
- c) in cases where an association's mission has been established as more or less universal (self-protection against racketeers, conflict resolution, informal credit support) the association fails;
- d) local authorities are suspicious of such associations; and
- e) some associations provide an example of combined profit and non-profit entities.

There are interesting attempts to organize nation-wide associations on a local level.

---

PA has no analogue in the Central and Eastern Europe transition economies' legislative practices. It provides for government control on retail prices on an unlimited number of goods by an open list of government agencies under poorly specified conditions.

NUB is famous for several reasons: in the past it used to sell cheaper sugar not only to bee-keepers but to everybody; now it still supplies its members with sugar material for their production but mediates access of small farmers' products to the markets of the bigger cities, and, in addition, organizes lectures for the rural public.

When and where local businessmen refuse to participate in any business association, the key argument is that sole proprietors should survive and succeed individually.

### *Needs Assessment*

The research allows for an informed judgment of the needs of the business community and associations.

In the political field, as mentioned-above, the business community would like to be less dependent on the political establishment and the central government, but there is no explicit consensus on how to achieve such a stage of development. Leaders do not seem motivated, for instance, to take legal regulations out of the portfolio of chambers of commerce and shift them to business associations.<sup>19</sup> Most of the businessmen and leaders seem to think that a more important issue is to improve the legislative framework for doing business in Bulgaria.

In the field of legislation priorities could be arranged as follows:

1. More than 80% of the businessmen interviewed share the opinion that private property rights in Bulgaria are not “clearly and firmly defined and protected.”
2. In addition, when asked to arrange legislative priorities they suggested the following:

Issue	Approval rate
a) clear rules of the economic game	63
b) equal treatment of public and private capital	55
c) pressure to speed up privatization	39
d) preferential treatment of private capital	37
e) protection of national capital (restrictions to foreign capital inflow)	32

In the field of mission definition of the business associations we can produce the following chart which should be compared with the one above.

Issue	Approval rate
a) provide business information to members	45.2
b) lobbying on local and central level	43.7
c) members education	43.6
d) contribute to clear rules of the game	42.7
e) licensing	39.3
f) contribute to members participation in privatization	38.8
g) mutual financial assistance	35.9
h) common action against racketeers	35.5
i) members mutual insurance	32.9
j) price agreements	29.2

### *How problems are being solved?*

Founding documents of the Bulgarian business associations list all possible activities that may contribute to the successful achievement of stated goals. However, IME interviews revealed that members of the associations attribute the successes of the respective associations to the capacities and contacts of their leader. More than 90% of those interviewed share this opinion. The second most stated reason for an association’s given success is the mutual assistance of its members.

---

<sup>19</sup> For more concrete comment, see below.

Despite the set of legislative problems discussed above, members indicate that the association has a high level of credibility. They do not think that the Cabinet or the legislature, in practice, plays any significant role in the economic regulations that favor private business and enterprise. Only about 15% believe that some members of Parliament may contribute to this task. (The Cabinet is considered as important in similar efforts by not more than 12.5% of businessmen.) In general, a very significant majority of them (78%) are of the opinion that “greater transparency is needed regarding who represents private business interests and how,” and even more (82%) say that “groups with vested interests tacitly influence important businesses decisions of the Cabinet and legislature.”

What can business community leaders do?

Here is a list of provisional steps that could be taken by different business associations.

1. It is difficult to negotiate each others political preferences but it is possible to agree on a set of basic values that most businessmen share. Agreement is needed not as such, but as a tool to overcome retroactive advocacy patterns and to attempt proactive campaigning. There is little sense in searching for general consent. The more appropriate approach is to elaborate on common business community position regarding short term economic and legislative priorities, to present this position to the government, and to request its implementation. Currently, Bulgarian labor unions are attempting similar strategies which are widely used by commercial chambers abroad. What is clear is that in 1995 and before, individual associations' attempts to influence government policies have not been successful at all.

2. Nation-wide organizations should improve the activities of their local branches. Interviews with businessmen in the country manifest high disapproval rates for the work of the local staffers.

3. All associations have to invest in information activities.

4. Most of the recently established organizations should redefine their mission statements. Following the vague requirements of the Persons and Family Act, many business associations have unclear constitutions with poorly distinguished goals, rights and duties.

5. Guilds still have to diversify their services; their main focus is to provide incentives for licensed members to disclose relevant information as a prerequisite to compete with unlicensed, informal or illegal entrepreneurs.

What's the future?

As a response to the current situation, about 70% of the persons interviewed agreed that there is a need for “some union of all Bulgarian business associations.” The crucial point is what this “union” is expected to do. “Unions” tasks were arranged in the following list:

1. to coordinate actions of different independent associations;
2. to participate in drafting bills;
3. to represent the business community at the government level; and
4. to have access to relevant committees of the legislature.

However, the prospect to have such an union is rather dim for the following reasons:

**First**, existing associations seem satisfied with the current state of affairs. They fight the Cabinet in their own manner and with uneven success. A new nation-wide or coordination body would mean that leading associations should sacrifice some of their functions. **Second**, there is no agreement among leaders as to what kind of procedure should promote such a union. In a time of rapid political change, all sorts of coordination bodies have attracted a great deal of public criticism and suspicion. **Third**, the majority of prominent business leaders does not think any kind of regulation of chambers of commerce or business associations is necessary at all. Their

organizations were registered (or reregistered) under the existing Persons and Family Act. Any new legislative idea can limit existing freedom. Newly established organizations with more specialized profiles share similar expectations.

Nonetheless, a favourable outcome of the situation could probably be found through supporting public debate on economic issues and by incrementally facilitating the tendency for business association specialization. Current developments indicate several positive moves in this direction. For instance, the formation of BAC and the newly established BAT, whose membership is comprised of economists and lawyers in the country, can be taken as an indication of a growing trend toward specialization. In addition, the fact that associations are becoming gradually independent of political censorship is a positive sign. On the negative side, however, we have to place the failure of business associations to influence sound economic policies that promote private enterprise in 1995. That it is now possible to hear the voice of entrepreneurs is little consolation given the fact that no one may be listening.