



# **2007 – The Transition of IME**

## **Annual Report**

March 2008

<b>Statement of the Executive Director .....</b>	<b>3</b>
<b>About IME .....</b>	<b>4</b>
<b>The Reforms and IME .....</b>	<b>4</b>
<b>Finances.....</b>	<b>7</b>
<b>The Board.....</b>	<b>9</b>
<b>IME Publicity .....</b>	<b>9</b>
<b>IME Media Appearance .....</b>	<b>12</b>
<b>IME Press Conferences .....</b>	<b>15</b>
<b>IME Awards .....</b>	<b>19</b>
<b>IME Future .....</b>	<b>22</b>
<b>Difficulties and Challenges .....</b>	<b>24</b>

## **Statement of the Executive Director**

2007 was a period of change for the Institute. The founder and director of IME since its establishment Dr. Krassen Stanchev was elected for a chairman of the Board and withdrew from the daily work of IME.

The young team successfully accomplished the transition with joint efforts, despite Krassen Stanchev is hard to be completely replaced. The results show that we managed to reach 2006 revenue, several regulations are submitted in the parliament with IME efforts, IME press coverage is big and we won two international awards. Some of the achievements are result of our work over the past years, but a strong effort was made in 2007. This gives us hope to keep going, believing that what we do is useful and worthwhile.

During the year IME continued to strengthen its position as a source of expertise and knowledge that can be used from all interested in Bulgaria development.

We look forward in the future without forgetting all that support us, because we will need each help, encouragement and assistance. In 2007 our supporters weren't few for which we thank everybody who made our efforts worth.

Best regards,

Svetla Kostadinova  
Executive Director

## About IME

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The Institute for Market Economics (IME) is the first independent economic research think tank in Bulgaria.

**The IME mission** is to elaborate and advocate market-based solutions to challenges the citizens of Bulgaria and the region face in reforms. This mission has been pursued since 1993 when the Institute was formally registered as a non-profit legal organization (№ 831344929, March 15<sup>th</sup>, 1993, 729/XI/VI, page 169).

IME **objectives** are to provide independent assessment and analysis of the government's economic policies and be a focal point for exchange of views of economists and spectators.

## The Reforms and IME

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### **Advocacy**

One of the major IME achievements for all these years is creating of a system of values that can be easily identified by society. In 2007, IME, in cooperation with experts and closely working with our former colleague, a Member of Parliament now, Mr. Martin Dimitrov, succeeded to:

- Prepare a proposal for amendment of the State gazette law (free and in Internet) – accepted in 2007 and promulgated in February 2008.
- Prepare a proposal for changes in The Commercial Law for tenfold decrease of the required minimal capital for the establishment of a company – submitted in the parliament at the end of 2007.

- Prepare changes in the Law on Normative Acts – some of the proposal were accepted in 2007 and from the beginning of 2008 each draft law must be accompanied with motives that include: (1) the reasons for passing the law; (2) the goals; (3) the finances and another instrumentalities, needed for implementation of the law; (4) the expected results of law enforcement, including the financial costs, if any; (5) the EU compliance analysis.

### **Economic Policy**

In 2007 IME continued to analyze the government policy that has consequences on everybody. The main directions were:

**Transparency** – we realized a project on “The simplification of the public procurement system in Bulgaria”, as well as on “Increasing Efficiency of Government Regulations and Public Institutions through Analysis and Information” and “The Construction Permits procedure: Improved, Transparent and in Internet”. In addition, throughout the year IME filed more than 10 requests for access to public information to different public entities; all replies and denials are accessible on the website of IME.

**Cost - benefits analysis** of regulations – this is one of the priorities of IME. We continued to maintain our specialized web page - [www.ria-studies.net](http://www.ria-studies.net) and produced several such analyses. Specifically, IME produced impact assessment of the draft law for amendments in the Health and Safety Labor Conditions act, draft law of the Environmental Responsibility Act, the draft law for amendments of the Access to Information Act, the draft of the Electronic Governance act. We also prepared short assessments of the loss for the economy from roads accidents, the campaign of the National Revenue Agency for increase

of tax collection and the consequences of congestions for the economy.

**Public Policy** – in 2007 we produced analysis about the possible effects for the economy if the teachers' demands for 100 percent salary raise are fulfilled, analysis on the anticipated long-term budgetary effects from Roma education, analysis on the budgetary effects from the food vouchers.

**High economic freedom** – achieving high economic freedom is one of the methods for raising the living standard of citizens and for prosperity for everybody. It became a tradition – for more than six years IME presents the two international Indexes of Economic Freedom – those of the Fraser institute (Canada) and those of the American Heritage foundation and Wall Street Journal. In 2007 the presentations were in February and September.

**Low taxes** – reduction of taxes and social security contributions in Bulgaria accompanied with pension and healthcare reform are an important focus in all IME initiatives. We continued to publish a **Tax bulletin** each month, we held two conferences on the subject, calculated the **Tax Freedom Day**, published the **Spend-O-Meter** that shows how much the government has spent so far, presented **analysis to draft budget 2008** during its hearings in the Parliament with which we presented arguments of the members of parliament to be used in the discussion and produced **Alternative budget with low taxes 2008**. All of these produced good results – in 2007 the social security contributions were decreased by 3% since October and a decision was made for introducing a 10% flat income tax effectively from 2008.

**Elimination of sectors' preferences and abolishing of unnecessary regulation** – a main point in IME philosophy is that business environment should be friendly and predictable for everybody and almost all preferences and the special rewards should be abolished so companies and people have equal opportunities to succeed. In 2007 IME produced a special review-analysis of the level of regulations of six professions - lawyer, pharmacist, accountant, architect, notary and engineer. Further to IME analysis the **Commission for protection of the competition** decided to explore the situation and produced opinion that recommends removing of some restrictions on the competition, entering the market and doing business of these professions. Another analysis that might influence the competition is IME opinion analysis on for the presence of discrimination of water prices in Sliven, prepared for the **Commission for protection from discrimination**.

IME also participated in the public debate against introducing preferential VAT rates for some activities and goods.

## Finances

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IME revenues in 2007 increased by 3.2%, compared to 2006 and by 25% compared to 2005.

There are several reasons for this:

- ✘ Increase of the share of the projects revenues by 8.1%
- ✘ Greater average budget amount for projects, financed by donor organizations
- ✘ Specialization and raised competence in some areas which position IME among the best consultants

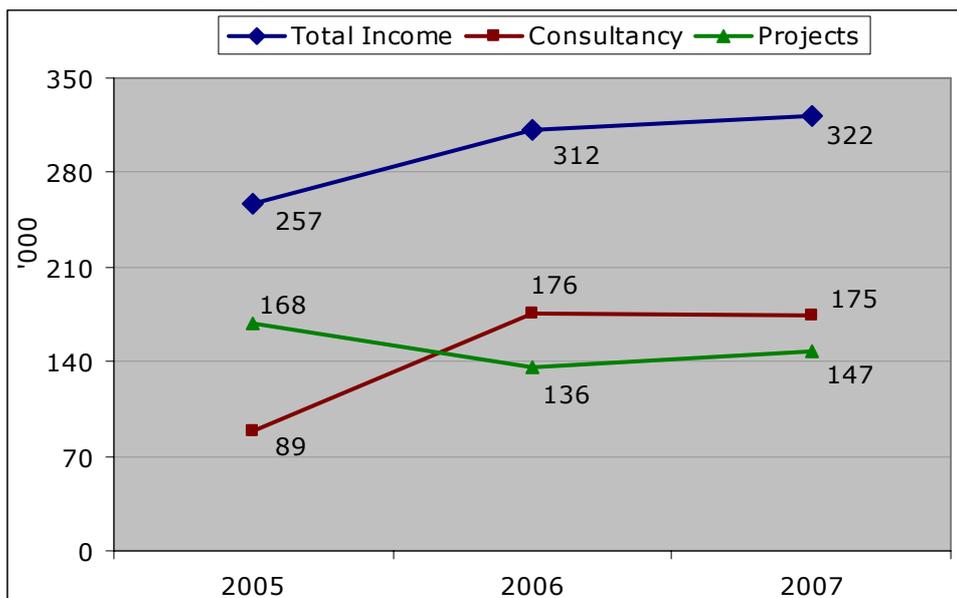
- ✖ Good relationship with partners and clients that leads to long-term collaboration
- ✖ Contracting for new rubrics in the press
- ✖ Renewal of old contacts

More than 57% of the revenues in 2007 were realized during the second part of the year because of the different budget period of American foundations.

In 2007 IME fixed costs represent 17.3% of the total costs. There is an optimization in the costs due to smaller office rent (changing the office with one with lower rent and smaller space), smaller utility costs, etc.

The 2007 revenues score moderate increase of 3.2% in comparison to 2006 and in combination with the optimization of the costs allowed for increase of salaries and financing of activities that are help us fulfill IME mission.

**IME revenues by source**



Source: IME

## **The Board**

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In 2007 there were some changes in IME Board. The long-standing Chairman of the Board George Zahariev gave up his place to Krassen Stanchev and became a member of the Board. Two new members joined IME – Mrs. Yana Kostova, Consultant in Value Partners, Italy and Mr. Kalin Hristov, Advisor to the Governor of the Bulgarian National Bank.

After these changes the members of the Board are:

1. Krassen Stanchev, *Chairman*
2. George Zahariev
3. Levon Hampartzoumian
4. Martin Zaimov
5. Frank Bauer
6. Andrei Evtimov
7. Ilian Mihov
8. Yana Kostova
9. Kalin Hristov

## **IME Publicity**

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In 2007 IME completely renew its Web site, raising the work efficiency and including new rubrics.

We started to recommend short movies concerning interesting subjects that quickly became favorite rubric.

In 2007 the total visits of IME website were 420 084 with the highest point - end of July (the government announced its intents for introduction of flat tax) and in November (IME presented the 2008 Alternative state budget with low taxes).

## IME Team

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From the beginning of the year **Svetla Kostadinova** is the new IME Executive Director after a decision of the Board. Her main engagements include managing the IME activities and representation.



**Dimitar Chobanov**, IME Chief Economist, specializes in the area of the public finances, monetary policy and costs – benefits analysis. In 2007 he was the coordinator of a project analyzing the inflation in Bulgaria and a project on budget benefits from Roma education. He was an editor of the IME bulletins and consulted all IME projects.



**Veliko Dimitrov**, Senior Researcher, specializes in the area of regulation impact analysis, international trade and capital markets. In 2007 Veliko was a coordinator of a project for public procurement reform, a project on state gazette reform and a project on institutional harmonization.



**Adriana Mladenova**, Senior Researcher, has interests in the area of the pension reform, analysis of the inflation and the labor market. In 2007 she coordinated a project for increasing the transparency of state administration, an analysis construction development in Bulgaria and costs-benefits analysis.



**Metodi Metodiev**, Researcher, specialized in the area of the e-government and costs-benefits analysis. In 2007 Metodi was a coordinator of a project for reform of the procedure of issuing of construction permits.



**Peter Ganev** is the newest member in the IME team. As a researcher he coordinated the publishing of the IME bulletins, he was a coordinator of a project on the effects of food vouchers, and he managed a project on the effects of water pricing in Sliven.



**Dora Todorova**, Chief Accountant, managed IME accounting and participated in preparation and reporting of project budgets.



**Binka Ilieva**, Office Manager, main task was to secure the logistics and office maintenance; she organized all IME press conferences and other public events.

In addition, IME has a network of external collaborators in Bulgaria and abroad who participate in the projects and initiatives, organized by the Institute.

For years the Institute organizes student internship programs. We believe that we can help the objective and impartial disclosure of the economic principles and at the same time to attract more young people towards the ideas of personal freedom.

In 2007 IME had six interns – three from the American university in Blagoevgrad and three from foreign universities (USA, France and Belgium). Currently, five of them are abroad continuing their education and one works in an international consulting firm in Bulgaria.

It's interesting that all of them had chosen IME after a recommendation of their fellow-students, i.e. there are young people that sincerely believe in the ideas for personal freedom and wish to learn more.

## **IME Media Appearance**

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The Institute for Market Economics is the only non-governmental organization in Bulgaria that has major media presence. We believe that this way more people will be attracted to free market ideas. Presenting another point of view that is supported by IME experts' analysis, arguments and proposals help people form more objective view on the economy politics.

IME has several channels to access media. For more than eight years IME team issues each Friday **Economic policy review** bulletin that

comprises on average by five commentary articles, translations on research papers and analyses. In 2007 **51 issues** were published and the reprint level by other media is more than 80 percent. The bulletin is free of use and sent by electronic mail. The subscribers are more than 4 000, but if we add the readers on those newspapers that reprint our articles, the subscribers are more than 50 000 weekly.

The **English bulletin** that includes the excerpt of the most important comments is published monthly. The subscribers are more than 3 000 and among them are foreign journalists, embassy staff, foreign investors and many others.

Since 2004 IME issues a monthly **Bulletin for low taxes** that include analyses and comments on government policy with effect on the tax burden of citizens and business. The bulletin is supported by Mr. Georgi Vassilev, a banker in Switzerland.

As a continuation of the tradition and one of IME reserved brands, we continued our cooperation with media having several regular columns in newspapers and specialized magazines. The cooperation with **Dnevnik** daily and the column "What is Seen and What is Unseen" each Tuesday included more general comments on economy developments in Bulgaria and Europe.

The institute has another column in **Sofia echo** English newspaper. The community of the foreigners in Bulgaria is the main audience and we are often invited to attend events and make presentation as a follow – up of IME articles in the paper.

IME started three new rubrics in 2007: in **Manager** magazine each month since March 2007, **Class** daily - each Wednesday (since its

start in September, 2007) and **BM** magazine (the Bulgarian edition of **Economist**) each month since its start in September 2007. In addition, the executive director has a regular column in a **Pari** daily, each Wednesday that helps the popularization of the ideas and the work of IME.

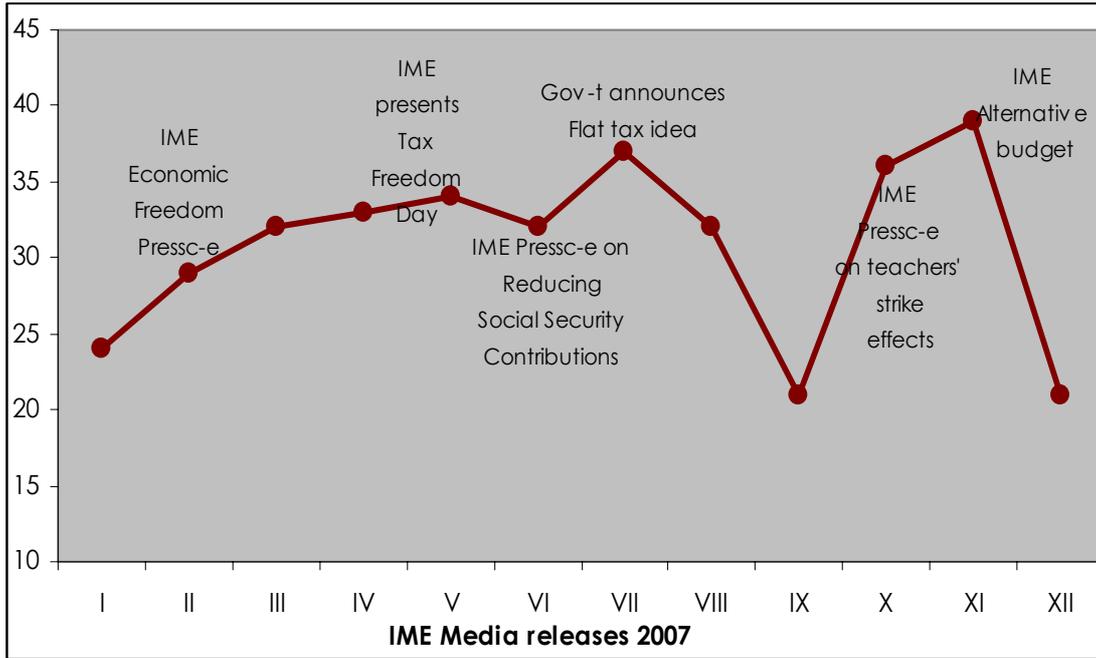
The regular rubrics in media with different format, focus and audiences demonstrate IME approach of reaching numerous readers with mixed interests.

Many other media sought cooperation with IME throughout the year. More than 20 articles were published in **24 hours**, **Sega**, **Standard**, and the IME bulletins were regularly reprinted by **Monitor** and **Novinar**.

The electronic media as the more solid vehicle of information and news are also among users of IME comments - **Mediapool**, **Express**, **Investor** and the many others published some analyses of IME.

The radio stations also searched for Institute's comments - radio-**Horizont**, **Hristo Botev**, **Darik** radio and **Inforadio**. A growing tendency of the enhanced interest is important also because the local radio stations as well radio **Varna**, radio **Stara Zagora**, radio **Plovdiv** and radio **Blagoevgrad** regularly cooperated with IME.

Last but not least is the television media. Throughout the year, IME economists had appearances in **Kanal 1**, **BTV**, **Nova TV**, **TV 7**, **BBT**, **Economica TV**, **TV Europe** and others.



## IME Press Conferences

Another way for distribution IME ideas are the press conferences. The Institute held five press conferences, and the link between them was the idea of less state intervention and economic freedom. The topics were:

### Economic freedom in Bulgaria and around the world (February, 2007)



**Reduction of the social security contributions (June 2007)**

(together with Lachezar Bogdanov, Industry Watch and George Angelov, Open Society Institute)



**Easier procedure for issuing construction permits (October 2007)**



**The teachers' strike and their demands (October 2007)**



**Fifth alternative state budget with law taxes** (November 2007)  
(together with George Angelov, Open Society Institute)



In addition, IME economists participated in several press conferences, held by other organizations.

In March 2007 Svetla Kostadinova participated in press conference, held by a Foundation Access to Information Program in relation with the proposed changes in Access to the public information act. The position of IME was against the proposed changes and the economic consequences were presented against the idea.



In September 2007 Dimitar Chobanov participated in a press conference about the **currency board** in Bulgaria, organized by an Open Society Institute and defended the position, that the only reason that the country should exist the currency board is to accept the euro and this must happen as soon as possible.



IME actively helped with organization and administration of the **Georgi Vassilev Fund** annual awards. The ceremony was in November 2007 and IME actively participated in the face of Krassen Stanchev in selection of nominations, the organization and the coordination of the ceremony.

### **IME Awards**

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2007 was the year in which IME received recognition at an international level with two awards. They were organized for the first time from the international Stockholm Network. More than 100 members of the network in over 40 countries of the world of Azerbaijan to Iceland attended the ceremony in London. The event also gathered politicians, journalists and business representatives. IME was the winner of the evening and the only organization that got two awards of altogether nine.

**Non-governmental organization of 2007** for its activity for dissemination of ideas of free market and personal choice in Europe. The award was presented by Dr. Jan Charnogurski, the ex-prime

minister of Slovakia and was received by Dimitar Chobanov, Chief economist in IME, to commencement in London in December 2007.



**Media of 2007** for successful work of the Institute for Market Economics with media and popularizing ideas on different information formats. The award was presented by John Fund, Wall Street Journal.

## Meetings

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In 2007 IME team had the pleasure to meet with several famous professionals.

In October 2007 **Mart Laar** that was in Bulgaria for a brief visit had a cup of wine with IME economists. Mart Laar, ex-prime minister of Estonia (1992-1994 and 1999-2002) is known because he is the first prime minister that had introduced flat tax and had fully liberalized trade. Besides that, he is the first prime minister that had implemented an electronic government: after 2002 the Council of ministers in Estonia work without paper, and the citizens can pay their taxes by Internet.



*(the third from right)*

In October 2007 IME welcomed to its office Simeon Dyankov, an author and a coordinator of "Doing Business" survey of the World Bank.



*(the first standing from right)*

## IME Future

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A lot has been achieved in 2007, but many remains. Here are the main priorities of our work in 2008.



### **Pension reform**

- reduction of social security contributions and the privatization of the pension system.



### **Healthcare**

- start of the privatization and provision of personal choice.



### **Business**

**environment improvement** - analysis of the obstacles to the business and campaigns for their elimination.



### **Education**

**reform** – accelerating the transition to decentralization with a focus of the delivering more power to schools.



### **Assessment**

**of the impact of the regulations** - continuation of IME pioneer work in assessment of effects and impact of important regulations, promotion of the method and training.



### **Elimination**

**of the preferences** - a campaign through the analysis on the effects and proposals for elimination of the preferences of the specific occupation and sectors.



**Continuing the privatization** – finishing of privatization and analysis of the effects for the citizens and business.



**Administrative reform** - increase of transparency, accountability, responsibility and the effectiveness of the administration on a central and local level.



**European Union** – evaluation of the effects from EU membership, analysis of the work of Bulgarian administration as a result of the membership and recommendations.



**Local policy** - analysis and proposals of local economic policy.

## Difficulties and Challenges

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The environment, in which IME works and exists, is very dynamic, as is the Bulgarian economy. We are in a different situation as the newest EU member-state, and the non - governmental organizations (the NGOs) are an important participant in all procedures of identifying the problems, discussing the possible solutions and making policies.

The EU membership, despite some negative consequences, provides more rights and responsibilities to the non - governmental sector that now will need to be taken by the Bulgarian administration

as an equal associate, least due to the European conditions for public consultations.

IME is well enough recognized, the administration, media, international agencies and everybody that follow the debate in the economic policy of the country know us.

However, there are difficulties, as they are more in the perception on the role of the non-governmental, not to their capacity to do perform it.

**Nothing is free** – the perception that the NGOs have to do their work without money or with little money is naive. IME as one of the leading NGOs in the country has to:

(1) accumulate major expertise and knowledge in the area of the public policies,

(2) engage the best economists and offer excellent conditions to compete in the labour market with the consultancy companies for the good experts,

(3) watch closely and constantly the government policy and to be always ready to react to ridiculous ideas.

(4) permanently interfere with other NGOs so to exchange experience and

(5) offer solutions on better economic policy, numerous of which are already accepted and implemented.

But the most important condition is **to be independent** from the “powerful of the day”, politicians and everybody that want to receive special treatment from the government. That is hard to achieve, but it despite that IME is dependent only from its ideas of small, effective

state, high individual and economic freedom and same rules for everybody.

**Few are those that support campaigns that will improve the life of everybody** – donations for our mission is still rare. The most frequent argument is *“why I have to pay if everybody will have benefits after the reform”*. Such attitude from affected business is still typical and is hard to be surmounted.

**The European programs change the incentives** - at the moment the many NGOs apply for structural funds financing. Unfortunately, some of the EU programs have different priorities and do not conform to society agenda. Lack of other financing however is the reason why so many efforts are put in this direction. The entire process diverts some constructive energy in the wrong direction.

Despite the pointed troubles and idiosyncrasies of the NGO sector in Bulgaria the Institute for market economy is a case for authentic success in achieving its goals.

**We believe that we have common objectives and we can achieve them together.**

**SUPPORT IME!**

**We can donate by:**

**E-pay system** – go on IME website ([www.ime.bg](http://www.ime.bg)) and check the E-pay button - you will be transferred to the system.



**IME bank accounts**

USD	EUR	ЛЕВА
<b>IBAN: BG96 RZBB 9155 1160 1161 13</b>	<b>IBAN: BG45 RZBB 9155 1460 1161 09</b>	<b>IBAN: BG54 UNCR 7630 1039 2234 15</b>
<b>BIC: RZBBBGSF</b>	<b>BIC: RZBBBGSF</b>	<b>BIC: UNCRBGSF</b>
<b>Raiffeisenbank (Bulgaria)</b>	<b>Raiffeisenbank (Bulgaria)</b>	<b>UniCredit Bulbank</b>
<b>18/20 Gogol Str. 1504 Sofia</b>	<b>18/20 Gogol Str. 1504 Sofia</b>	<b>3 Kaloyan Str, 1000 Sofia</b>