

Some problems of administrative regulation on economic activity in Bulgaria

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Summary:

Administrative regulation in Bulgaria is a key to improving the business environment. At the same time this public administration instrument for economic regulation is a new way of state interference in the national economy. It is very difficult to describe the public administration reform in the context of public influence on the national economy. The public administration changes its structure, nature and functions that requires new thinking and creates problems in regards to build a new regulation system for effective and efficient public economic governance. The old system was a complex of public property and its management, and administrative apparatus that improves this system with regulatory rules, their adoption and application in national economy. In the new system public administration has a major role in process of economic regulation through creating administrative rules, and controls their application.

Key words: administrative regulation, administration, economic activity, business environment, administrative burdens

JEL: K2

1. Introduction

Since 1990, the economic systems of the countries in Eastern Europe took up a comprehensive and profound transformation. These circumstances brought about significant changes to the scope and format of government and administrative regulation. In particular in Bulgaria the changes in this system are attributed to the changing international economic and political environment. The country underwent a transition from a command economy to a market-oriented economy. This new environment transformed the role of the state and its prerogatives with regard to the administrative regulation of economic activity and business. These circumstances require structural and functional reforms in public administration and in the state administrative apparatus so that the latter is adapted to the changes in the dynamic business environment and in society at large.

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The reform of the Bulgarian administrative system is necessary because of the two factors that influence this process. On the one hand it changes radically social structure and public demands, and on the other deep and comprehensive process of harmonization of public administration to the European one is under way in order to implement European and Bulgarian legislation. In order to improve the coordination between two levels – European and national, such a process should be accompanied by adoption of the best practices in the European administrative system, including European state regulation on business.

2. Description of the study and findings

The main goal of this study is to analyze the Bulgarian administrative regulation system to find and describe the problems that curb the system's effectiveness and efficiency. An attempt is made to analyze the Bulgarian administrative system in order to assess state intervention in the national economy. This study will help examine the real situation of regulatory framework in Bulgaria and to find weaknesses and opportunities in the field of administrative regulation and undertake steps to improve the Bulgarian administrative system and business environment.

To this effect a well-structured logical methodology is applied to obtain better results. For this purpose research tools as the analytical method induction and deduction, as well SWOT analysis have been applied.

In 2002 European Union (EU) developed and adopted the first program to improve

administrative regulation (European Commission), and the regulatory business environment accordingly. In this field in 2004 Bulgaria adopted special legal framework to reduce and restrict administrative regimes. In 2008 the government adopted a "Program for Better Regulation" (Ministry Council, 2008), which in compliance with European regulations, requires further reforms in the state regulatory framework.

The desired effect to be achieved by changes in regulations is connected with the economic transformations in Bulgaria. The administrative regulation system changes are part of the transition from a centrally planned to a free market economy. According to the better regulation principles, close interaction between market and state regulation can be established. The problem of state intervention and the question of the state economic instruments are central for most economists. In Bulgaria as a country in transition it is essential to reach a high level of consensus on the future changes in the institutional and administrative framework. For this purpose it is necessary to find a balance in state intervention and develop a modern legislation in order to achieve intense economic growth.

The level of state intervention depends on many factors - the object of government, the government's place and role in economic development and business. There are many ways and visions about state instruments and policy towards an industry or sector of the national economy. Many of the transformation effects on sectors of the national economy, particularly in manufacturing, cause general changes in

the economy, which worsens the economic situation. The reasons are various: imprudent and uncontrolled policy of economic liberalization, imperfect legislative basis, and other factors. This economic climate leads to de-industrialization and undermines the economic stability in the country. On the other hand, it requires that the legislation is updated, structural and administrative reforms are launched to improve the administrative regulation of economic activity.

The topic of administrative regulation in business is relevant as this research field corresponds to the challenges that public sector and public administration in Bulgaria are facing. Namely we see government efforts in striking the right balance between the implementation of government policy and the effectiveness of administrative structures. Furthermore the authorities in charge of implementing and conducting reforms make efforts in different sectors and industries of the national economy. The World Bank survey (World Bank, 2006) shows that Bulgaria is among the leading countries in the third world (51st out of 183 countries) with regard to the business environment. However, the regulatory burdens in the country are more compared to most EU member states. Apart from the stable European economies such as Britain, Denmark and Ireland, Bulgaria is less attractive for business compared to others, newly acceded EU member states like Estonia, Lithuania and Latvia. Bulgaria shows the potential for improvement, as it takes 7-th position in the ten new EU member states' ranking.

To reduce administrative regulation and control on business the Bulgarian state has to fill in the gaps in the regulation of common rules and actions. In this respect, it is necessary to determine the actual state of administrative regulation and control on the national and local level. At the same time there is a need to identify ways and opportunities to facilitate and encourage business by limiting regulation regimes. Administrative control is understood as the establishment of regulations and their enforcement to ensure administrative state control.

Burdens and control are important part of public governance which regulates socio-economic development, creating conditions for a favorable business environment, economic growth and enhancing the competitiveness of the Bulgarian economy. Speaking about the administrative regulation on business, Andre Niisen highlights the role of the state in the field of social security, effective healthcare and environment protection, which is an essential priority for a state. To meet the existing requirements, the state requires information about regulations, concerning citizens and businesses activities (Nijsen, 2009).

Administrative formalities take various forms, so it is difficult to arrive at a basic definition. Therefore it is difficult to provide the definitions of various terms such as administrative rules (formalizations), administrative barriers and administrative procedures, administrative formalities and administrative burdens.

Most programs for "better regulation" aim to relieve the administrative barriers and

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focus on procedures within specific policies. In this sense, even if policies are correct, they are based on unclear, cumbersome and unpredictable procedures. So arguably administrative rules are a subset of state regulation, which means that good regulatory principles can be attributed to administrative rules.

Administrative barriers contain two elements. The first includes the steps that an investor makes by entering new markets or going through the initial procedures of starting a business. And the second element is related to some routine activities of companies and government agencies in their interaction. The first component shows the barriers to company access to the market, which require higher capital resources and therefore higher investment spending. The second component concerns operating costs, which reduce capital returns. These procedures can be classified as follows:

- Procedures for entry - immigration procedures for foreign investors; registration procedures for local and foreign companies (legal company registration, tax legislation, social funds, and also in the statistical institute); antitrust authorization; business sector and individual licenses;
- Procedures for tracking - key aspects of finding a proper place, including local purchase or land rental and constructions permits and other infrastructure requirements, inspections and entitlement;
- Operational procedures - data reporting, required by the tax administration, import/export procedures, procedures for international exchange, labor regulations and state inspection.

In a broad overview the Organization for Economic Cooperation and Development describes the administrative rules as a category of state regulation (OECD). According to them, administrative regulations can be defined as state information requirements in order to exercise and perform other independent political prerogatives, including implementing monitoring through such regulations. Administrative regulation brings direct and indirect costs. Direct administrative costs relate to time and money spent on completing the formalities and paperwork required by the effective regulations. Indirect costs arise when administrative regulations reduce business productivity and growth.

The analysis of the administrative regulation system in Bulgaria leads to the general conclusion that the weaknesses in the effective regulatory framework outnumber its weaknesses and flaws. Bulgaria's membership in the European Union may be highlighted as an achievement of the current system, which is characterized by two aspects. On the one hand, as an EU member state Bulgaria is obliged to abide by the adopted rules and conventions. Hence the state is controlled and monitored and sanctions are imposed for non-compliance with decisions taken at the European level. Secondly, Bulgaria has to transpose EU rules which creates difficulties in launching regulatory reform.

The explanation is the large number of legislative measures that increase the complexity of the regulatory framework. Generally speaking, Bulgaria does not gain much from membership because of the slow

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pace of reforms conducted by the Bulgarian state. The country uses European funding, technical assistance, and best practices for the effective implementation of adopted programs in order to reduce administrative burdens, arising from any other positive solutions (Table 1).

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expand the best practices pertaining to self-regulation along the lines of business established in 2009 by Association of Independent Appraisers in Bulgaria (State Gazette, 2010). The strengths will allow Bulgaria to enhance self-regulation and increase administrative control and thus

Table 1. Analysis of the strengths and weaknesses of the system of administrative regulation in Bulgaria

<p>Strengths</p> <ol style="list-style-type: none"> 1. Bulgaria's membership in the EU 2. Adaptation of European best practices 3. Strategic documents for reform 4. Strengthening consultations between stakeholders 5. Introduction of information technology for administrative services 6. Legislation to limit administrative regulation 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1. Slow institutional reform 2. Broken system to assess the quality and impact of regulation 3. Cumbersome and complicated legislation 4. Low administrative capacity 5. Lack of control system 6. Lack of a full review and analysis of legislation 7. Lack of unit to improve the quality of legislation 8. Low administrative and business culture
<p>Opportunities</p> <ol style="list-style-type: none"> 1. Transfer of the regulatory powers of professional organizations 2. Enhancing self-regulation and administrative control 3. Achieving a favorable business and investment climate 4. Stimulating business initiative and entrepreneurship 5. Protection of free competition 6. Cost savings for business 7. Creating a comprehensive system to provide electronic services 8. Achieving good governance 	<p>Threats</p> <ol style="list-style-type: none"> 1. Delay Administrative and Regulatory Reform 2. Increase local regulations 3. Limited opportunities for enterprise 4. Increasing corruption 5. Restriction of competition and closing of branches 6. Repel potential investors 7. Weaknesses in the functioning of the single administrative register 8. Lack of established practice to use public records

As an EU member state Bulgaria can transfer the best practices from other European countries. Moreover, Bulgaria has to adopt European legislative and strategic documents which are a key factor for success. Based on the strengths of the system of administrative control, we can conclude that the adequate implementation of reforms will create opportunities to delegate some of state powers to industrial organizations. Thus the Bulgarian state will

create a favorable business environment and investment climate. That means that Bulgaria will cut investment costs. Also the state can build a comprehensive system of electronic services in order to achieve good governance. All these measures will stimulate business initiative and entrepreneurship in country.

The decision made by the government in this area should be accompanied by improving the system of electronic public

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services, which meets the requirements for adopting the good management practices such as improving administrative capacity and the quality of administrative work. These reforms would help protect competition and encourage free economic activity. Hence a favorable business environment and potential for attracting investment will be one of the effects.

A major weakness the slow institutional reform and broken system of quality and regulation of impact assessment. This may corrupt the good practices adopted in Bulgaria. The serious problem that limits reforms is the lack of administrative capacity and culture for administrative control, review and analysis of the quality of legislation. These weaknesses are related to threats as limitations in the regulatory reform that increase corruption at all levels. As a result local regulations to restrict competition are adopted, which limits the opportunities for enterprises.

Recently we have seen the study and adaptation of good European practices in the Bulgarian state, which is a prerequisite for the successful completion of the reform. European experience is incorporated into government programs at the strategic level, which may be the first step towards the implementation of reforms. Also legislative changes, regarding the limitation of administrative regulation of economic activity in Bulgaria, are initiated. The law of Limiting Administrative Regulation and Administrative Control on Economic Development (State Gazette, 2004) provides the basis for reforms. Each reform should be supported by government and by legislative measures and naturally, by stakeholders, such as

industrial organizations. This is the strength of the system, the increase the intensity and quality of consultations and forums constitute the connection to the reforms undertaken.

The weaknesses definitely prevail. However, the EU reform plan envisages 10 years for their implementation. That is why the Bulgarian state performs slowly, which is seen in the slow and cumbersome administrative reforms - institutional and legislative. In this regard, the administrative procedures are cumbersome and there is the lack of system of analysis and evaluation of new and existing regulations. There is a low administrative capacity of state structures, especially those related to the implementation and administration of regulations. In a systematic analysis of the state there are no unit assessment regulations. This fact creates another weakness, the lack of a complete analysis and evaluation of legislation and administration. However, they are required for the successful completion of regulatory reform. Administrative and business culture are still too low, and as a result there is no established practice for handling a single administrative register and other public records. The described weaknesses may hinder the administrative and regulatory reforms, and accordingly obstruct government action and worsen the business climate in Bulgaria. Consequently, as a result of the decentralization of local government, powers are delegated to introduce new regulations at the municipal level. This measure increases regulations and business

costs. Thus economic freedom is limited. The consequences of low administrative capacity and culture combined with the slow institutional reform lead to poor administrative performance and do not increase the experience of working with public records at the local level. Neither is there the “check through official channels” practice.

Administrative services analysis and their standardization proposals will continue the unification and integration of government services. However, the experience over the past four years in the field of regulation shows relatively large deficits in the administration in terms of building a sustainable framework for the regulation of economic activity.

One implication of the study is that the ultimate goal of the administrative regulation operation is to establish a proportionate, effective and completely transparent regulatory process that does not create unnecessary difficulties and procedures to business. It may be based on promoting the implementation and use of information technology and innovation as a key factor for growth and employment. Therefore, the government attempts to improve legislation on administrative regulation and the legislative and institutional measures should be studied. This change in the legislative process would contribute to improving the business environment by introducing the principles of good governance in public administration,

streamlining administrative and regulatory barriers, improving infrastructure and the liberalization of network industries. After a thorough analysis, we can group the needed changes in several areas.

SWOT analysis exposes the overall economic situation in Bulgaria in the field of administrative regulation. There is a real danger the improvement of the administrative regulation system may fail because of the lack of administrative capacity and culture. The Bulgarian administrative system is too slow, conservative and bureaucratic, which is the serious problem in implementing government programs for “Better Regulation”. It is necessary to build up capacity through a new administrative body that will be responsible for initiating and controlling the administrative reforms.

3. Conclusion

In conclusion some areas in which significant changes should be initiated can be singled out: the system for creating legislative instruments to optimize the evaluation system of regulation should be changed and the process of reducing administrative procedures and alleviating the existing regulatory framework should be continued.

Legal instruments changes

Activities and measures in this area include the development of a proposal for systemic changes, aiming to improve economic regulation and the quality of

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legislation. There is an idea to set up an interministerial group to consult the entire process of preparing and implementing regulations drawing on the expertise of social and business partners, i.e. consultations should be held at the initial stage of drafting a bill or a regulation.

Optimizing regulation system

Regulatory impact assessment is a key analytical tool that determines the success of activities for improving regulation. The information that is stored in the system represents the attempts to estimate the social, economic and financial implications of the adoption and implementation of new laws.

Reducing administrative burdens

In this direction the state continues to work towards the goal of 25% reduction in administrative mode. The standard cost model analysis of legislation and administrative procedures should be used to limit them wherever it is necessary. On this basis proposals will be made to further reduce administrative barriers in certain areas where sufficient results have not been achieved.

It is necessary that the state continues the process of reducing administrative regimes, directed at amending the legislation related to business. In order to achieve the main purpose, following tasks are defined:

- Elimination of redundant regulations;
- Synchronization of “horizontal” level of regulation on businesses;
- Verification of the opportunities for coordinated regulations affecting business;

- Reducing the scope of restrictions on business (number of licenses, permits, etc.)
- Introducing decision making patterns to regulate the deficiencies and weaknesses in regulation called “fast track”.

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