

# Case Studies

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## SMALL AND MEDIUM ENTERPRISE POLICY REFORM IN BULGARIA

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### 1. Introduction

Private sector expansion in the small and medium enterprise (SME) sector is critical to Bulgaria's economic growth. Efficient, competitive, and competent private enterprises will be the main source of employment and economic development in Bulgaria's future. The legacy of the Communist era weighs heavily on Bulgaria's economy. Privatization has moved sluggishly, and money-losing state-owned enterprises hamper the transition to free market operations.

In recognition of the importance of SMEs to economic growth, the U.S. Agency for International Development (USAID) has been supporting an assistance program to Bulgaria that focuses on nurturing private sector development, particularly of small and medium enterprises. The program began with firm-level assistance, helping a selected set of individual firms to build their capacity and to gain access to the financial resources necessary for expansion. USAID and its partners quickly found that legal and policy constraints had to be confronted in order to create an enabling environment for privately owned business and competitive markets – domestic as well as foreign. The program engaged SMEs to band together so that government could hear their voices. USAID provided assistance to the private sector in building coalitions, lobbying, and

policy dialogue. Following a change in government in 1997, these activities expanded beyond the private sector to target public sector actors' ability to listen, provide information, and incorporate citizen input into legislation and policy.

Building new relations between government and citizens in the private sector was the key to SME policy development. USAID/Bulgaria contracted with the Implementing Policy Change Project (IPC), housed in the Global Bureau's Center for Democracy and Governance, to use this key to unlock the potential of SMEs in Bulgaria. This case study tells the story of how this was accomplished and what results were achieved [1].

Using an innovative "trialogue" strategy, the IPC/Bulgaria project works with three groups, recognizing that effective policy dialogue for reform depends upon: a) effective interest aggregation among SME stakeholders, b) high-quality technical information and policy analysis, and c) open and receptive public administration. The three groups are Bulgarian business associations and coalitions; local policy research think tanks; and government officials and parliamentarians. Within each of these groups, IPC works with partners who provide leadership in promoting policy dialogue.

## 2. USAID Support to SME Development in Bulgaria

USAID recognized the need to nurture private sector-led development to help Bulgaria make the transition from a state-managed to a competitive market economy. This transition requires far-reaching and fundamental changes on the part of both government and citizens (see Gelb and Gray 1991, Rice 1992, Siegel and Yancey 1992). However, some positive results need to happen quickly to provide momentum for these long-term reforms. USAID focused on SMEs, where global experience showed that the most rapid and adaptable opportunities for employment and income generation lay (see Webster et al. 1994). The Mission aimed at improving three critical components for promoting growth and development in the SME sector: 1) firm-level support to increase the competitiveness and efficiency of selected Bulgarian firms, 2) capacity-building for business support associations, and 3) promotion of a more supportive legal environment for business (USAID 1998).

The Mission's initial thinking on what was needed to promote business association capacity and pro-business legal reform focused on providing external technical expertise in economics and private sector policy. This expertise would arm Bulgarian business association members with the right policy content, which would—if adopted by government and successfully implemented—lead to change. The IPC project design team, visiting Bulgaria in the spring of 1996, proposed an alternative approach to the Mission, one that concentrated primarily on assisting business association members to become more effective advocates for policy reform. The USAID director accepted the arguments in favor of the alternative, and the terms of reference for the long-term advisor that the Mission wanted shifted from calling for an economist to a policy process specialist.

### 3. The IPC Intervention: Design

Any given policy regime is the product of a coalition of interest groups-- both inside and outside government. At a particular point in time, a policy reflects an equilibrium among the members of the coalition, who often have a vested interest in maintaining the status quo. In Bulgaria, the policy framework inherited from the Soviet Union was ill-adapted to the needs of a market economy, and discouraged private sector initiative and investment. The post-Communist socialist government retained the Soviet-era distrust of the private sector, plus the

country's political and economic elites revealed themselves to be more interested in exploiting the opportunities for personal gain that arose out of the transition than in pursuing significant reforms. The "nomenklatura"-based cronyism of the past persisted, and liberalization and privatization progressed slowly.

To promote pro-private sector policy reform, this coalition favoring the status quo needed to be rearranged. The question facing USAID/Bulgaria was, how could international donors most effectively promote the construction of a new policy constituency such that reforms are implemented and sustained?

#### 3.1 Creating Demand for Policy Reform

International assistance agencies have traditionally sought to promote policy reforms by providing support to government policy-makers to undertake better policy analysis, design and impact assessment. This is the classic supply-driven approach to policy and institutional reform. An alternative but complementary approach draws upon the economic principle that supply will emerge in response to effective demand, and supports strengthening of private sector and/or civil society capacity to generate and lobby for a policy reform agenda. The rationale for this approach derives from current thinking about how policy change can be implemented in democratizing and transition economies.

To insert themselves effectively into the policy process private sector actors need to identify their interests, and to organize themselves to both make demands on government and to supply their own proposed solutions. To become effective participants in policy reform they need capacity in:

- Clarifying and developing consensus on the policy issues that affect them,
- Developing constituencies and coalitions for policy reforms and an understanding of their requirements and complexity,
- Planning and taking appropriate and practical advocacy and implementation steps, and
- Reviewing and monitoring actions taken in support of their plans.

### 3.2 A Strategic Policy Dialogue Process Approach

USAID's approach for modifying Bulgaria's policy and regulatory environment to foster competition and SME growth emphasized the creation of a policy dialogue process to promote a new mode of private sector and government interaction – one that encourages the private sector to become more proactive and government to be more responsive. This dialogue process involves policy analysis and agenda-setting, capacity-building in the functions elaborated above, the nurturing of SME constituencies around a policy agenda, the establishment of periodic and ongoing fora for dialogue and review, leading to a reshaped Bulgarian coalition for SME policy reforms owned and driven by indigenous stakeholders. The elements of the strategic approach include the following:

1. *Providing new information.* Policy analytic tools, such as a policy inventory or stakeholder analysis, allow for the incorporation of new data into the policy process, and provide the basis for building a policy reform agenda. New information and analysis can, for example, reveal the costs of the status quo, elaborate policy alternatives, and provide the building blocks for an advocacy and lobbying campaign.
2. *Mobilizing key stakeholders.* Capacity-building with private sector actors enables them to develop an advocacy agenda and lobby government effectively, both to initiate reforms and to keep them moving. Empowering interest groups to play an effective role in the policy process can significantly reorient policy coalitions.
2. *Establishing forums for stakeholder interaction.* Workshops, roundtables, and other types of participatory forums offer venues that bring actors together who do not typically interact, and facilitate airing of views, conflict resolution, and consensus formation. Such sessions expand the possibilities for mutual understanding, dialogue, and negotiation that can open the door to reforms and/or move their implementation forward.
3. *Encouraging government officials to make positive commitments.* The policy dialogue process, which includes the participation of key government actors, serves to encourage officials to publicly commit to desirable policies and their implementation. This can help to generate

commitment and ownership for reform implementation, and build a basis for accountability.

4. *Monitoring progress in a transparent way.* Policy agenda development and tracking mechanisms provide stakeholders with information on the extent to which policy-makers and implementors have fulfilled their commitments. Monitoring and progress assessment serves to maintain momentum for reform and contributes to democratic accountability.

## 4. The IPC Intervention: Implementation

In January 1997 an IPC team composed of a resident advisor and several local staff set up an office in Sofia. As the team got established and began to work with members of the Bulgarian business community, political turmoil led to the ouster of the post-Communist socialist government. A reformist government headed by the United Democratic Forces (UDF) came to power in the spring of 1997. The first step in breaking up the policy coalition that profited from the status quo had been taken, thanks to the UDF's mobilization of popular dissatisfaction (see Annex 1). These events presented the team with a golden opportunity to help the Bulgarian SME sector to mobilize for change.

### 4.1 Overview of Assistance Activities

Assistance helped business associations with issue identification, stakeholder analysis, policy agenda setting, lobbying and advocacy. Public officials in the new, reform-minded government began expressing openness to input from civil society and the private sector. This change created an opportunity to expand technical assistance in strategic planning and policy reform to public sector partners as well.

Over the past three years, the main operational activities of the project have evolved to include:

- Assistance to business associations through training and advice on lobbying, coalition-building, policy analysis, legislative drafting, strategic planning and information dissemination.
- Assistance to the Bulgarian government's Agency for SME Development in policy analysis, stakeholder involvement, public

communications, and coordination of legislative reform initiatives.

- Assistance to the Economic Commission in Parliament in stakeholder involvement, public communications, legislative drafting, and coordination of legislative reforms.
- Assistance to the Public Information Working Group (PIWG)—this public sector entity evolved later into the Government Information Services (GIS)—in communicating major reforms to the public, coordinating the public message across government, working with the media, polling, and using public opinion surveys and other techniques to get feedback on reform efforts and impacts.
- Initiating and supporting a weekly talk show on economic reforms, “Questions and Answers,” broadcast on the Bulgarian National Television network.

This assistance has been in the form of coaching and informal training by the resident advisor, complemented periodically with short-term consultants, both local and expatriate. Assistance needs and workplans are developed collaboratively; Bulgarian partners take the lead and are supported by the IPC team. The assistance combines a focus on process, that is, the “how” of coalition-building, policy dialogue, and strategy development, with the “what,” that is, the technical content of policy analysis and SME reform (see Spector and Cooley 1997). The role of the resident advisor has been to work alongside his counterparts to plan and accomplish what they want to achieve, not to do the work for them as an external expert. Early on, this involved the advisor in a combination of: a) demonstrating what could be possible for business groups to accomplish, based on IPC’s experience elsewhere and his own experience with policy lobbying and advocacy; and b) encouraging, cajoling, and nudging his counterparts to embark on the uncharted (in Bulgaria) waters of formulating and presenting policy positions. As local capacity has increased, the IPC team has contracted with local experts and think tanks for both technical analyses and policy process assistance. This has not only improved the quality and relevance of the work by adding local knowledge, but it also serves the goal of reinforcing local capacity to sustain the analytical and strategic management role that IPC currently facilitates.

As the business groups became stronger, the IPC team’s role evolved toward facilitation of the policy dialogue process and away from capacity-building. However, some capacity building has continued, particularly for more recent project partners, such as the GIS (see below), where the team has provided skills training, US study tours, and advice on its operations/role, etc. Facilitating the dialogue process has helped stakeholder organizations to work towards common objectives. The mechanisms used for this process have been a combination of temporary task forces and working groups, as well as periodic discussion forums and workshops (see Brinkerhoff 1994).

#### **4.2 Building Private Sector Advocacy Capacity**

In the spring of 1997 after the socialist government was forced to step down, the climate was ripe for reformers to come forward. IPC helped the Bulgarian Association for Building Partnership, known as BAP, to develop an SME action plan and a coalition-building campaign. The campaign called for the government to adopt ten steps towards “revitalization of the SME sector:”

1. Completion of the privatization and land restitution processes by 1998.
2. Creation of an environment that will attract foreign investment.
3. Stimulation of competition and open markets.
4. Creation of a court system that enforces fair business practices.
5. Restructuring of the tax system to stimulate investment.
6. Implementation of measures against organized crime.
7. Reform of the banking system.
8. Guaranteed protection of agricultural producers and processors.
9. Coordination of use of international donor funds for SME development.
10. Strengthening of the role of local governments in promoting local business.

BAP formulated an advertisement for the campaign that invited other business interests to join their

cause. The ad was a big success. Over fifty private sector groups responded to the BAP invitation, coalescing support for SME reform nationwide. (An English language version of the campaign ad appears in Annex 2.) The new UDF regime subsequently adopted the issues proposed in the BAP ten-point plan as part of its economic restructuring package submitted to the National Assembly in the summer of 1997. This was unprecedented. In the memory of the local business community no-one could think of a previous instance of the Bulgarian government taking the initiative to incorporate citizen interests into policy and legislation.

Interest aggregation took another leap forward with the formation in mid-1997 of a national coalition of business associations, called the National Forum, with BAP as a founding member. BAP and the Federation of Bread Makers and Confectioners sponsored the Forum's first meeting. Thirty-four business associations attended the kick-off meeting, which was facilitated by an expert from a Bulgarian policy think tank, the Center for Liberal Strategies (CLS). BAP was selected as the coordinating secretariat for the Forum, and a workplanning process was started to organize priorities and activities for the Forum.

The Forum set its sights on becoming a representative group of private SME interests in Bulgaria, and to be the primary interlocutor with government for SME policy reform. This was a new calling in an uncertain political and economic environment. Although non-governmental organizations had individually tried to collaborate with past governments, few had had any success. Joining forces hopefully would give them a larger voice and greater power to push reforms through to implementation. The early stages of the Forum's efforts were quite productive. Follow-up meetings of the managing committee and working groups were held, and various decisions and actions were taken:

- The group chose ten laws from the legislative program of the Council of Ministers that the National Forum would focus on.
- A working group representing three small business associations was to develop a program for introducing the National Forum and its members to the public, media, and government.
- A decision was taken to sponsor a workshop on lobbying for the representative body of the National Forum. The workshop was held in September 1997, and was attended by thirty-

eight participants representing twenty-six business associations.

The National Forum was closely involved in the development process of the National SME Strategy. BAP, as its coordinator, participated in a series of town hall meetings concerning SME issues, organized by the Economic Commission of the National Assembly with help from IPC. The members of the Forum were the key audience for all the disseminated drafts of the Strategy and also participated in all public discussions, including the National SME Summit. Following the acceptance of the National SME Strategy by the Council of Ministers, the Forum members again participated very actively in commenting on the draft SME Act and in the public roundtable organized by the Agency for SMEs. After this successful period of cooperation and with the finalization of the Strategy and the Act, the Forum began to wane, although separately the members remain actively involved in drafting and commenting on new legislation. The focus of the coalition's efforts were on the development of the National SME Strategy and the SME Act; once these had been accomplished, the members' individual goals and legislative interests came to the fore.

#### **4.3 Getting Business Associations and Think Tanks to Work Together**

Prior to the SME policy reform, Bulgarian businesspeople regarded think tanks as homes for impractical, "ivory tower" academics. Conversely, the experts at the think tanks viewed the business community as uneducated in the finer points of economic development. However, getting SMEs together with policy analysts was important to establishing the credibility of the private sector's message to government. With some pump-priming by IPC, think tanks worked in close collaboration with business associations to help them articulate positions to government. These collaborative relationships have grown over time, and currently local think tanks undertake analyses, develop position papers, and facilitate discussion forums for SME associations. Each side has come to see the other as a valuable partner in advancing policy reform (see Barber and Grudkova 1998). Through this process, the think tanks have also developed relationships with key decision-makers in government (see the discussion below on the development of the SME Strategy.)

#### **4.4 Public Sector Transparency and Information Dissemination**

On the public sector side of the partnership, the range of actors has included the Public Information Working Group (PIWG) of the Council of Ministers, the Economic Commission of the Bulgarian Parliament, the Bulgarian National Assembly, the Agency for SMEs, and the Foreign Investment Agency. The unifying theme of their activities is increasing openness, access, and participation. In support of government policy to increase transparency and openness, IPC/Bulgaria facilitated a study tour in 1997 to the United States for members of the PIWG to increase their capacity in public relations and information dissemination. The Economic Commission organized a roundtable discussion on the Law for Foreign Investment to collect input from the private sector. The National Assembly put together and promoted a handbook containing biographical data and contact information for members of parliament, a list of parliamentary commissions, lists of constituencies and parliamentary groups, and names of Assembly leadership. This handbook was a first for Bulgaria. Never before had such information been readily available to citizens. Later on, in 1998, IPC/Bulgaria helped the PIWG (now the Government Information Services, or GIS) to communicate the government's agenda in pension reform, capital markets reform, and health care reform. The GIS crafted an information package and contracted with local media groups for dissemination. GIS staff carried out public opinion surveys to get feedback on the reform efforts, and coordinated the policy messages across other levels of government.

#### **4.5 Public-Private Sector Policy Dialogue**

In the fall of 1997 as part of the process of developing the National Strategy for SME Development, the Economic Commission convened a series of seven participatory regional town hall meetings around the country to bring together SME stakeholders, government officials, and parliamentarians to discuss policy issues and strategy. A joint civil society-government working group managed these public forums. A team drawn from the working group drafted a policy paper, building on the outcome of the town hall meetings. Beginning in early 1998, the draft strategy was reviewed by a cross-sectoral joint committee made up of representatives from the public and private sectors, and was disseminated to over 300 individuals and organizations for their opinions.

After several revisions and reviews inside and outside of government, the document was finalized, and publicly presented at a national summit that was organized by the Economic Commission and the Agency for SMEs. This meeting was attended by nearly 300 participants from government, civil society, the private sector, and international donors. The process that went into developing the Strategy, and the participatory structured policy debate around it, was a first for Bulgaria. Following the summit, the strategy was finalized, and in July 1998 it was submitted to and accepted by the Council of Ministers. Immediately after the acceptance of the Strategy, using the same process, the development of a draft SME Act began. The SME Act was accepted by the Council of Ministers at the end of 1998, submitted to the National Assembly, and then finalized by the Economic Commission of the National Assembly. The law was subsequently passed and officially promulgated in the State Gazette on September 24, 1999. Government officials heralded the process as "the most democratically produced national strategy in the history of Bulgaria." Further "dialogue" among members of the partnership is planned for the future, building on the successes achieved so far.

Both sides of the partnership were initially wary of the motives and intentions of the other. However, the shared experience of collaborating has led to greater trust among the partners. Whereas IPC played a facilitative role in bringing the parties together, subsequently they continue on their own to discuss issues, draw on each other's expertise, and promote dialogue with other government and private sector groups. As a result, the legal framework for SMEs in Bulgaria is an explicit topic of the partnership's joint efforts, along with a new and more participatory approach to policy and legislative development.

### **5. Achievements and Outcomes**

The SME policy reform project followed a trajectory from civil society capacity-building (with business associations), to increasing government openness to citizen input and policy dialogue (in both the executive and the legislative branches of the Bulgarian government), to the drafting and passage of new legislation that supports private sector development. The outcomes achieved demonstrate: a) the importance of a viable participatory process to attaining desired policy results, and b) the linkage and synergy between the project's sectoral objectives related to SME policy reform and the democratic governance system within which those objectives are

pursued (see Brinkerhoff 1998). Examples of outcomes that illustrate the importance of the process are described below.

### **5.1 The National SME Strategy and the SME Law**

The formation of Bulgaria's National SME Strategy is a concrete example of how process adds value to outcome. When the Strategy was presented to the public, it did not come as a surprise to the business community. There are numerous examples of policy edicts unilaterally developed and handed down by government, but the Strategy stood out as being different. Both public and private sector members of the task force that developed the Strategy took pride in pointing out not just that it existed, but how it came into existence, as a joint effort of government and business.

This does not mean that all the elements of the Strategy had the full support of private sector stakeholders. No policy enjoys this kind of support. However, the participatory strategy development process was indicative of the government's commitment to do things differently, to open its doors to the community, to talk to stakeholders, and to strive for transparency, and in so doing shed the legacy of state dominance of the economy. With the completion of the Strategy, the government went on to prepare and pass an SME Law. This law affects the regulatory environment for business, and establishes the organizational structure and development objectives in government to support Bulgarian SMEs. This step towards changing of laws validates an important goal of the Strategy: to set a policy framework for guiding detailed legal/regulatory reform initiatives. Private sector representatives were involved in the legislative drafting process, further reinforcing the democratic governance practices of public-private sector participation and transparency in shaping an enabling environment for SMEs. The law establishes an SME Agency and an advisory board. Among the policies and procedures for the advisory board is ongoing periodic dialogue with the public. This contributes to institutionalizing transparency and openness (see 5.3 below).

### **5.2 Interest Aggregation and Advocacy Capacity among SME Groups**

Capacity-building with business associations and other groups has led directly to the creation and empowerment of coalitions of entrepreneurs around

SME policy and regulation. The process-focused technical assistance resulted in stakeholder-led, as opposed to government-imposed, policy formulation. The dialogue strategy linked entrepreneurs' interests in reform, aggregated in associations, with technical skills in policy analysis, housed in think tanks, which combined to engage public officials in policy discussion. This process has avoided the problem that business groups sometimes face of being perceived as special pleaders for their own narrow interests, and connected their advocacy efforts to broader technical arguments around how to initiate and sustain economic growth in Bulgaria through private sector-led development. The process also helped to move policy dialogue from suspicion and name-calling to a substantive focus on the issues.

This is an important achievement in a region where there is much debate about how best to engender collective action among citizens and private sector interests. In former socialist countries, collective action has a very negative connotation, harkening back to the days of collective farming, subservience of the individual to the state, single-party politics and the like. Of all post-communist societal actors, entrepreneurs are the most likely to operate independently, shun the government, and have little or nothing to do with their competitors who, like themselves, are struggling to survive, let alone profit, in an uncertain new economy.

Through this project, significant numbers of Bulgarian entrepreneurs have learned the benefits of seeking to engage with government officials, as well as the skills necessary for advocacy and lobbying. They have also learned the desirability of tapping into sources of technical expertise to reinforce their messages to decisionmakers in the executive and legislative branches of government. In future they will be more likely to work collectively on other SME policy issues, given their positive experience.

### **5.3 Transparency and Accountability in Public Administration**

The participatory approach used in developing the SME Strategy and subsequent changes to relevant laws helped to operationalize a new model for government-citizen interaction, and to promote transparency and accountability in public policymaking. The process built capacity among public officials in using this new model. For example, organizing the regional town hall meetings with business associations provided government staff with experience in collaboration, which led them to

be open to holding the national SME summit. For the Bulgarian Parliament, success with this forum for information-sharing and citizen consultation led to willingness to establish more systematic consultation. Initially, this took the form of an e-mail distribution network where draft and pending legislation was circulated for comment to associations and businesses. The network has about 180 addresses, about 60 percent are business associations, slightly over 30 percent are research institutes and think tanks, and the remainder are central and local government representatives and individual entrepreneurs. A further step toward institutionalization of transparency took place when Parliament created the Information and Public Relations Directorate, where citizens can get daily information on topics to be debated in parliament, new laws passed, stages of reading of new laws, etc. In 1999, the Information and Public Relations Directorate, along with the Council of Ministers and the Bulgarian National Television developed a television question and answer show, where guests make a presentation and viewers can call in with questions. A sampling of topics debated over the past year include: capital markets regulation, bank privatization, SME development, tax policy, pension reform, small investor protection, foreign investment, and municipal budgeting.

#### **5.4 Economic Results**

It is difficult, if not impossible, given the range of intervening factors, to attribute direct economic results to the SME policy reform project. However, experience worldwide indicates the importance of a supportive policy and regulatory environment for private enterprise. In post-communist Central and Eastern Europe the major creators of jobs and growth have been SMEs. Thus the IPC project's successes in organizing businesspeople to advocate for policy reform, in developing the SME Strategy, and in contributing to the passage of the SME law can plausibly be seen as positively related to setting the stage for sustainable growth of the SME sector (see Webster et al. 1999). A further development is that the policy dialogue effort started in Bulgaria gave birth to a regional initiative following a conference held in Sofia in February 1999. The focus of the effort, the Southeast Europe Trade Initiative (SEETI), is on promoting regional business links to support both economic growth and long-term stability in Southeastern Europe. Besides Bulgaria, working groups consisting of business associations, government officials, and think tanks have formed in Albania, Croatia, the Former Yugoslav Republic of

Macedonia, Romania, the Federation of Bosnia and Herzegovina, Greece, and Turkey. The working groups in these latter two countries have emerged from existing structures; in the other Southeast European countries, USAID is providing support to the groups. SEETI held a conference in Sofia in March 2000, funded by USAID and facilitated by the IPC project, to review progress with the initiative, strengthen links among the business community in the region, and refine the country working groups' action plans.

#### **6. Lessons Learned**

A number of lessons can be drawn from Bulgaria's experience with promoting SME policy reform. Several of these reinforce IPC lessons learned elsewhere, and others emerge from the specifics of the Bulgaria case.

1. The Bulgarian SME policy reform illustrates a pattern of ad hoc and relatively informal partnering mechanisms at the start of the partnership. This informal approach was successful in engaging state actors for purposes of policy dialogue, advocacy, and design with civil society. It permitted a "testing of the waters" of cooperation by both sides without committing either one to a formalized path until trust and agreed-upon modes of interaction could be developed. This informal and opportunistic approach appears appropriate in situations where government and citizens do not have a history of collaboration and participation, and relations are tinged with mutual suspicion.
2. Participatory policy dialogue is important to developing technically appropriate and implementable policy reforms. This has been a uniform lesson drawn from across a range of IPC experiences (Brinkerhoff 1996). The development of the SME Strategy and passage of the SME Act were landmark events in demonstrating the benefit of positively engaging private groups in policy development and of creating ownership for reform. This participatory process is recognized as a model for the Bulgarian government to replicate with citizens in other policy arenas.
3. The SME policy reform case illustrates the linkage between sectoral reform and democratic governance. The UDF government moved toward increased transparency, information sharing, and willingness to seek out citizen input.



Business associations saw this as an opportunity to express their views to policymakers, and organized themselves to advocate for SME reform. The various forums jointly organized by public officials and members of the business community furthered the dialogue and supported increased citizen engagement as they encountered public officials willing to listen to them and use their input for policy decisions. Government staff, seeing the benefits of citizen consultation, then expanded the use of more democratic procedures to other policy reforms, e.g., open hearings, town hall meetings, etc.

4. For business groups to participate effectively in policy dialogue with government, they need to clearly articulate the economic rationale behind their concerns. In many developing and transitional economies, public sector officials and legislators see the private sector as overprivileged and driven solely by the search for profits. Members of the business community are often ineffective in communicating the legitimacy of their concerns, and in demonstrating how supportive policies can enable the private sector to contribute to development. The Bulgaria case shows the importance of getting private sector actors organized among themselves to identify their interests, and of basing the arguments in favor of their interests on sound economic criteria. This latter function was fulfilled by the policy research think tanks that were part of the trialogue. This lesson reinforces a similar one learned in IPC's experience with the West Africa Enterprise Network (see Orsini et al. 1996).
5. A related lesson has to do with the difficulty of maintaining an effective coalition of private sector interests, as demonstrated in the slide of the National Forum into inactivity following its mobilization around providing input to the SME Strategy. Mobilizing interests for a short-term effort does not guarantee that the coalition can be maintained over the long-term. There is a trade-off between the breadth of a coalition, where interests are broadly defined so as to attract a large number of stakeholders, and the sustainability of the coalition, where interests need to be narrowly defined so that stakeholders see a direct link to their own individual concerns and are motivated to remain involved. One way of dealing with this problem is to form sub-groups among stakeholders from similar

industries, where smaller coalitions with more closely shared interests can continue to interact.

6. The three-pronged policy partnership (trialogue) can be an effective strategy to engage cross-sectoral groups in policy discussions. Involving two partners from outside of government helps to offset the power imbalance inherent in the partnership, where the government is the strongest partner. The participation of think tanks, with their economic expertise, can help to mitigate the potential danger of SMEs seeking patron-client protective relationships with government, rather than open market liberalization, as well as help business associations build experience with policy advocacy (see Barber and Grudkova 1998). The trialogue strategy requires some degree of coordination to operate, however. An open question is who will fulfill the coordination function once USAID assistance through IPC concludes. A related question addresses the need for a minimum level of resources for coordination; who can support these activities absent donor funds? The hope is that one of the think tanks can take on this function, with a small amount of funding from either the SME Agency or several of the business associations.
7. Particularly important for initiating policy dialogue in situations where government and citizens do not have a history of such cooperation is the presence of a neutral facilitator. This neutral party can help to bring about participation and engagement precisely because the various stakeholders can see that they are not personally interested in any specific policy outcome beyond assuring that dialogue takes place (see Spector and Cooley 1997). A question for sustaining the dialogue is whether a local entity, such as a think tank or civil society organization, can be perceived as sufficiently neutral to fulfill the facilitator role when USAID support ends.
8. A cultural lesson is the need to situate advocacy and lobbying within an appropriate cultural context while at the same time demonstrating its link to democratic governance. Bulgarian partners indicated that one obstacle to institutionalizing policy dialogue around SME issues is the perception that seeking to influence policymakers in government constitutes corruption. Some of this derives from Bulgaria's post-communist legacy, where citizens witnessed

and the media reported on collusion between public officials and criminal elements in the partitioning of former state-owned assets. This lesson supports the benefits of developing transparent mechanisms for incorporating citizen input into the policy process.

9. The Bulgaria case provides confirmation of the utility of combining process-oriented technical assistance with sectoral expertise in promoting policy reform. First, this approach focused attention on the important “how” dimensions of initiating change. Second, it clearly promoted host country leadership of the reform by assuring that local stakeholders took ownership of the process. Third, it produced results that led the stakeholders to stay with the process over time because they could see the benefits that emerged.

A final lesson is that USAID/Bulgaria’s willingness to be flexible and allow the project to pursue targets of opportunity as they arose assured that host country

actors maintained leadership and initiative for SME reforms. The Mission’s flexibility also meant that the IPC team could function effectively in support of its Bulgarian counterparts in both the private and public sectors. Following emerging opportunities proved to be the best way to sustain the momentum for change that emerged from the policy dialogue and to achieve demand-driven results.

## ENDNOTES

1. Derick W. Brinkerhoff, with Abt Associates Inc., is research director for the Implementing Policy Change Project, and has provided periodic short-term technical and analytic support to IPC/Bulgaria in strategic management and policy reform. William Coletti, with Management Systems International, was the long-term resident policy process advisor in Bulgaria and Director of the in-country IPC technical assistance team from January 1997 to February 2000. Russell Webster, Management Systems International, is the SME technical backstop to IPC/Bulgaria, and has been active in assisting USAID in formulating strategies for SME development in Eastern Europe and the former Soviet Union. The authors thank Filip Stojanovic, IPC/Bulgaria deputy director, for helpful comments on earlier drafts and assistance in supplying and verifying information.

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## **Annex 1: Context and Background to Project Start-up**

The IPC/Bulgaria project began at a time of political and economic upheaval in Bulgaria. Although the collapse of the communist dictatorship in 1989/1990 brought political freedoms to the people of Bulgaria from a constitutional standpoint, it did not result in any significant change in how the government ran the economy. While several of Bulgaria's East European neighbors seized the moment to open their doors to foreign investors, a succession of Bulgarian administrations failed to take steps to restructure the economy, which sank further and further into disarray. By December 1994, Bulgarians were frustrated by what they perceived as the failure of their attempt at democracy and opted to reinstate the former communists, who had relabeled themselves the Bulgarian Socialist Party (BSP). From this point forward, the deterioration of Bulgaria's economy snowballed. In addition to the general economic difficulties inherent in the transition of a centralized economy with inefficient production capacities to a market based system, Bulgaria suffered a number of problems at the hands of corrupt officials and organized crime.

Bulgaria's so-called private sector became dominated by a few large companies who were able to negotiate "sweetheart" deals with state-owned enterprises on a large enough scale to put significant pressure on the economy, and slow market reforms. Sham privatization transactions were staged resulting in large amounts of state assets being given away to friends of the administration. Furthermore, many of the proceeds from sale found their way into foreign accounts by one method or another. Increased organized crime and racketeering became a major deterrent to the creation of new SMEs and to continuation of existing small businesses. The Bulgarian people, after seeing their property taken from them with impunity by the government or by criminals, as well as by foreigners, developed a "wait and see" attitude towards investing in new productive activities.

An article published in the Wall Street Journal summed up the economic situation:

By 1995 Bulgaria had replaced Marxist-Leninist socialism with a mixture of Mafia cartel capitalism and socialism. Contract killings, though never on the Russian scale, increased. In 1996 inflation was 310%. Not surprisingly, under BSP rule, foreign loans dried up and Bulgaria's economy went into a tailspin. In 1996 the Bulgarian gross domestic product declined by 10.9%. According to the World Bank, 90% of the Bulgarian population now lives below the poverty-line income of \$4 per day (Morris 1997).

By January 1997, long lines formed in front of foreign exchange bureaus to change Bulgarian Leva into hard currency, and people waited for upwards of two hours to buy a loaf of bread. With organizational support from the opposition group, United Democratic Forces (UDF), first Bulgarian students, then workers, pensioners and the population at large took to the streets to demand the resignation of the socialist government of Prime Minister Jan Videnov. A riot in Sofia, where thousands of people stormed the Parliament building, was followed by weeks of street protests, store closings, strikes and roadblocks that halted all commerce in the country. In early February the BSP agreed to step down. New elections were held in April, and the UDF won an absolute majority of seats in parliament.

## Annex 2: SME Reform Advertisement

# What can happen in... Seven years?

Parliamentarian democracy can be established;  
the government can change hands seven times;  
prices can rise by 1600%; the birth rate can drop by 30%.  
And, of course, a child can grow up and start school.

What can this child expect in seven years? And in seven more?

We are the **Bulgarian Association for Partnerships (BAP)**. Our goal is to encourage small and medium size enterprises (SMEs) and free entrepreneurship in Bulgaria.

We are not politicians. BAP is not a **political party**. What we want is the voice of small and medium size businesses to be heard so that we can re-establish a Middle Class in Bulgaria.

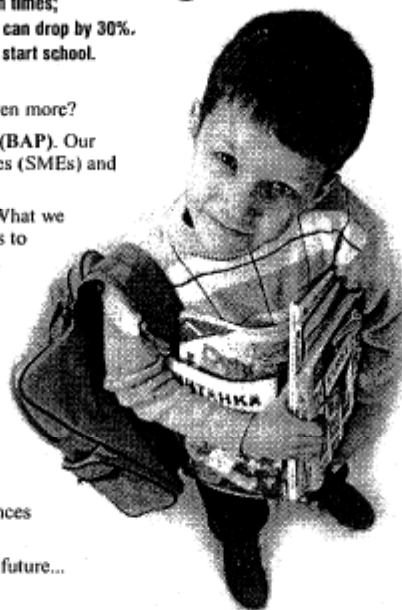
That's why we're creating a **National Program for the Stabilization of the Economy** which includes a ten point plan to revitalize small and medium size enterprises.

We must urgently amend old laws affecting SMEs and adopt new ones, and these reforms should be completed in the **first 200 days** of the newly elected National Assembly.

Join us. The more voices we have, the greater the chances that our issues will be heard.

Small and medium size businesses in Bulgaria need a future... so do our children.

If you share our goal, or if you have ideas about how to improve our program, give us a call: 02/987-75-23, 89-74-84, 987-72-89



### TEN POINT PLAN FOR SME REVITALIZATION

- Complete the process of **privatization** by the end of 1998, and the restitution of land by Sept. 1998;
- Create an environment that will encourage the rapid growth of **foreign investment**;
- Stimulate **competition and market freedom**;
- Create a **court system** that supports fair business relations;
- Structure a **tax system** that stimulates investment, and puts the taxpayers and tax authorities on equal footing;
- Implement measures against the **shadow economy and criminal activities**;
- Reform and restore confidence in the banking system;
- Guarantee the protection of the **agricultural producers and processors**;
- Coordinate the effective use of funds from **international programs** related to SMEs;
- Strengthen the role of **local governments** in encouraging SMEs.



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- Rule of Law
- Elections and Political Processes
- Civil Society
- Governance

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