

**STRENGTHENING WORLD BANK GROUP
ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION
CONSULTATION FEEDBACK**



BULGARIA
(JANUARY 2007)

Participants:

Government: Cabinet; Supreme Administrative Court; Supreme Court of Cassation; Prosecutor General's Office.

Development Partners: European Commission; EBRD; IMF; UNDP; USAID; IFC ; EU Ambassadors to Bulgaria.

Legislature: Parliamentary Anti-Corruption Commission; members of Parliament.

Civil Society: Members of various Civil Society Organizations, including Center for the Study of Democracy; Open Society Institute; Economic Policy Institute; Center for Economic Development; Institute of Market Economy; Business Leaders' Forum.

Private Sector: Members of various private sector organizations, including Chamber of Commerce and Industry; Confederation of Employers and Industrialists; Bulgarian Industrial Association; Bulgarian Economic Forum; and individual members of the private sector.

How did the process fit into ongoing country dialogue?

In the years leading to EU accession, Bulgaria's governance and anti-corruption priorities and agenda have been set very visibly by the European Commission (EC) through its regular pre-accession monitoring and implemented by the Bulgarian authorities. The government and the EU share the view that good governance overall, a transparent and efficient judiciary and the sustained implementation of strong anti-corruption policies will be critical to Bulgaria being a successful EU member.

Good governance and anti-corruption consultations are also key to the World Bank Group's current Country Partnership Strategy (2006-9), as they have been during the previous period (2002-6), complementing efforts to maintain macro-economic stability and investments in human resources and infrastructure. These consultations and dialogue have resulted in numerous, very specific measures that the Bank supported in a series of three Programmatic Adjustment Operations approved in Feb. 2003 (PAL1), June 2004 (PAL2), and June 2005 (PAL3).

For example, measures to: (i) establish a market-friendly business environment, including a program to eliminate or restructure regulatory regimes resulting in reduced entry constraints and regulatory costs; law and program to strengthen the enforcement powers of the Commission for the Protection of Competition resulting in increased transparency and competitiveness; and establishment of a National Revenue Agency resulting in more transparent and effective tax collection (despite reduction in tax rates); and

(ii) advance Public Sector Reform, including development of an anti-corruption strategy and action plan and the establishment of the inter-ministerial committee for its implementation; adoption of code of ethics for the civil service, adoption of mediation law; implementation of the freedom of information legislation; and various other measures to improve expenditure management by strengthening allocative efficiency and transparency, procurement and financial accountability systems, and improving the judicial system.

These measures, intended to support Bulgaria in meeting the requirements for EU accession, were successfully implemented and have resulted in improved governance indicators and business climate as per agreed performance indicators and evidenced in various surveys such as the joint EBRD and World Bank BEEPS surveys, the World Bank Doing Business Reports, and OECD Investment Reform Index. Bulgaria has become a full member of the European Union (EU) as of January 1, 2007.

Against the above background, the GAC consultation process dovetails well with the World Bank Group's on-going country dialogue in Bulgaria. Strengthening governance has been and continues to be core to World Bank involvement and engagement. There is consensus with Government, Development Partners and Civil Society that further advances on good governance and fighting corruption are required, including and especially in Public Sector. Regulatory and judicial reform are priorities, as well as progress in the Education, Health and Social Services which are confronted -- to varying degree -- by systemic issues of institutional dysfunction, informal payments and other hurdles constraining governance and limiting access to basic social services. Governance, transparency and anti-corruption therefore figure prominently in the World Bank's analytical work and ongoing dialogue on justice sector reform and regulatory reform, and in the context of the first social sectors institutional development policy loan (SIR DPL1).

The Bulgaria Country Unit welcomes the 2006 Singapore Annual Meeting mandate to provide feed-back because it has been supporting Government, civil society and the private sector in their efforts to improve governance and fight corruption. GAC consultations are therefore an ongoing process rather than a singular event, including:

- The Regional Vice President's discussions with key policy makers, development partners and the private sector on issues of governance and anti-corruption during his visits to Sofia in June 2006 and January 2007.
- World Bank follow-up on the **Third Anti-Corruption in Transition Report (ACT-3)** and the **Doing Business Report** through targeted engagements by the Country Director, the PREM Sector Director, the Country Manager and other Bank staff comprising:
 - A well-attended presentation by the PREM Sector Director to key policy makers from all three branches of government on ACT-3 and the 2005 BEEPS results for Bulgaria. This was followed by a well-covered press conference and an interview on the main Bulgarian TV channel (September 2006).
 - A presentation by the Country Manager and Country Economist to the parliamentary anti-corruption commission (September 2006); and development partners / embassies (September 2006).
 - Ongoing Country Office consultations with Civil Society Organizations, representatives of the private sector and their umbrella organizations,

OECD, development partners and the Press (October 2006 to January 2007).

- Just-in-time World Bank support for judicial governance-related issues during 2006-2007 at the specific request of the government and in coordination with the European Commission and other development partners:
 - Quick preparation and delivery of a performance-based framework for justice sector governance at the government's request, based on consultations with the judiciary, the executive, the European Commission, other development partners and civil society (September-November 2006, January 2007).
 - IDF Grant support to the Prosecutor General at his request, and to complement EC support, for strengthening prosecutorial anti-corruption capacity (November 2006-ongoing).
- A focus on governance and transparency in operational engagements in areas of public sector functioning especially vulnerable to egregious corruption, such as:
 - Revenue administration – through the Revenue Administration Reform Project (ongoing)
 - Land administration – through the Cadastre and Registration Project (ongoing)

Both operations have already had a positive impact on increasing transparency and effectiveness, and mitigating revenue evasion and corruption in their respective areas.

- The World Bank's commitment to support the Bulgarian authorities on governance and anti-corruption, most recently exemplified by its continuing support for justice sector reform.

What were the key issues/themes raised by participants?

There was consensus in the executive, the parliament, the judiciary, and civil society that Bulgaria has put in place important initiatives for improving governance and combating corruption, and that the success of these efforts has played a critical role in Bulgaria's accession to the EU as of January 1, 2007. However, it was stressed that such initiatives need to continue into the medium term to demonstrate results and impact. Some civil society and private sector representatives expressed reservations about the degree to which these reforms are underpinned by a clear and consistent vision and backed by political will. There was also consensus on the Bank's important constructive role in improving governance, although there were differences of opinion as to where the Bank's emphasis should be.

a) Government: Improvements in governance and effectiveness across key economic sectors are seen as underlying the considerable economic progress and political stability Bulgaria has enjoyed. At the same time, government counterparts also are aware that further improvements are required, including in the education and health sectors, to facilitate the foreign direct investments required to maintain economic growth in the medium-term.

Government counterparts also noted that corruption is a sensitive issue. An insensitive approach to anti-corruption work could damage the Bank's relations and credibility with

the government. Some counterparts expressed the view that fighting corruption is not a primary explicit mandate of the Bank, and that the anti-corruption impact of the Bank will be more significant in the broader context of the Bank's work in Bulgaria and other countries on strengthening governance in public sector management (including public expenditure, judicial and revenue administration reforms) and social sectors; improving the business climate; and strengthening service delivery.

b) Legislature: The Anti-Corruption Committee explicitly requested expanded Bank cooperation on anti-corruption in the model of the BEEPS, ACT3 and Doing Business. Individual Members of Parliament strongly support the fight against corruption, but also point to the complexity of the task and the need to communicate with civil society. Sector specific parliamentary commissions take a special interest in GAC concerns in their sector.

c) Civil Society: Civil society sees itself at the forefront of efforts to contain corruption and strengthen transparency. It seeks support including a more active role from the Bank. A number of civil society representatives suggested that the Bank could benefit from developing clearer guidelines on when and how it should engage in countries afflicted by pervasive corruption.

Respondent Type	Consultation Reply
1. Top governance challenges in country	
Government	<p>Top governance challenges were reflected in the Government’s pre-accession medium term governance and institutional reform agenda, comprising:</p> <ol style="list-style-type: none"> (1) Sustaining structural reforms in the enterprise and infrastructure sectors; (2) Establishing a market-friendly business environment; (3) Deepening the financial system; (4) Improving public sector governance; and (5) Investing in human capital and strengthening social programs. <p>These pillars included specific thematic reforms focused on structural, regulatory, and institutional reforms in the real and financial sectors to move Bulgaria towards a functioning and transparent market economy. The governance agenda included reforms in public sector management, including public administration modernization, judicial reform and anti-corruption initiatives.</p>
Legislature	Concerns about the sometimes limited technical capacity of the Parliament, mentioned as a factor limiting Parliament in discharging its responsibility to the fullest.
Civil Society and Development Partners	<ul style="list-style-type: none"> • Sustained political will in combating organized crime and corruption. • Judicial functioning is relatively opaque with scope to strengthen judicial accountability, and reduce the length of judicial proceedings (e.g. the average duration of the pre-trial phase is 541 days). • Need for a continued long-term vision in economic policy with clear objectives and goals. • Need for implementing decentralization of public sector functions and services.
Private sector	<ul style="list-style-type: none"> • Political will to combat corruption and organized crime. • Continuation of regulatory reforms and strengthening effectiveness and transparency in its implementation. • Judicial reform to address low trust and confidence in the judiciary, evidenced by 2005 BEEPS data:

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	<ul style="list-style-type: none"> • 37% of firms state that the functioning of the judiciary is a problem doing business (compared to EU average of 32%) • Steady decline in percent of firms that have used courts: 44% in 2002 to 39% in 2005 (compared to EU8 figures of 41% in 2002 to 36% in 2005) • Only 43% of firms believe that judicial system can uphold property and contract rights in 2005; a drop from 49% in 2002 (EU average: 55% for 2005)
2. Promising areas of governance and anticorruption reform and potential obstacles	
Government	<p>Promising areas</p> <ul style="list-style-type: none"> • <u>Anti-Corruption Strategy</u> formulated and being implemented. • <u>Mandatory disclosure of incomes and assets</u> by civil servants and judicial officials. • <u>Combating organized crime</u>: The Office of the Prosecutor General and the Ministry of the Interior have made a major effort since 2005 to combat organized and serious crimes. Prosecutions have been launched against major crime families, especially those allegedly involved in contract killings and human and drug trafficking. In some cases convictions have been obtained. Action is being taken against money laundering, in cooperation with several countries' police and investigators. Drug seizures are being made regularly: 30-50 kg of drugs are being detained at the borders every week. Speedy processes have been initiated for court cases. • <u>Combating corruption in the government</u>: Prosecutions have been launched against numerous senior officials including investigators, prosecutors, and judges. Eight investigators' cases have been sent to the courts for trial. The Prosecutor General requested, and was granted, a waiver of immunity for prosecuting 6 legislators; criminal trials have commenced in several cases. • <u>Combating corruption among prosecutors</u>: Action has been initiated against allegedly corrupt prosecutors: disciplinary action has been started against corrupt prosecutors and more are understood to be in the offing. The Office of the Prosecutor General plans to automate income and asset declarations to check and prevent prosecutorial corruption. The Prosecutor General plans to increase cooperation with civil society organizations to increase transparency and accountability. • <u>Combating corruption among judges</u>: disciplinary actions being taken against allegedly corrupt judges. • <u>Improving coordination between the prosecutors and executive entities</u>: Numerous joint instructions have been issued in the last year between the Office of the Prosecutor General and entities such as the Ministry of the Interior, the Ministry of Justice,

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	<p>the National Investigation Agency, etc on issues such as completion of the Unified Information System for Combating Crime (UISCC), anti-money laundering, seizure of assets derived from criminal activities, unified criteria for investigating individuals who cannot provide adequate evidence for the source of financing of their assets, etc.</p> <ul style="list-style-type: none"> • <u>Continuation of efforts to alleviate administrative barriers to business</u>: Including regulatory reform and tax reform. <p>Potential obstacles</p> <ul style="list-style-type: none"> • Election cycle can affect reform drive • EU accession can lead to reform fatigue
<p>Civil Society and Development Partners</p>	<p>Promising areas</p> <ul style="list-style-type: none"> • Civil society monitoring of corruption <ul style="list-style-type: none"> ○ Publicizing a system of indicators to monitor the implementation of the government’s anti-corruption strategy and to sustain the public and international interest in Bulgaria’s honoring its EU accession commitments. A paper (http://www.csd.bg/infocusShow.php?id=8406#) was developed by CSD at the request of the government’s anti-corruption body (the Commission for the Prevention and Counteraction of Corruption, chaired the Minister of Justice) and adopted as the official monitoring system of the 2006-2008 strategy and its annual plan of action. • Justice sector reform: <ul style="list-style-type: none"> ○ Need for Government and judicial leadership to develop and take ownership of a public outreach/awareness program to educate public on judicial system and promote judicial reform ○ Adoption of appropriate amendments to other legislation – primarily the Judicial System Act – to implement and clarify the Constitutional changes and provide an institutional set-up for the SJC to discharge its mandated role and responsibilities ○ Random assignment of cases is being increased to improve impartiality and as an anti-corruption measure ○ Greater judicial transparency: The ABA-CEELI Judicial Reform Index finds that the Bulgarian judiciary are reaching out to public and media on a more open and systematic basis; the Supreme Judicial Council has started inviting the press to some of its meetings; judges are becoming more open and transparent and many courts now do not hesitate to interact with civil society and the media. ○ In courts receiving USAID assistance, the public perceives a marked improvement in administration (speed increase and lack of unnecessary delays) and there is a general view that service delivery is of good quality

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	<ul style="list-style-type: none"> • Revisions of laws for simplification and elimination of loopholes for corruption • Increased transparency of budgetary processes <p>Potential obstacles</p> <ul style="list-style-type: none"> • Continued perception of lack of public confidence in the integrity of the judicial system: <ul style="list-style-type: none"> ○ Less than 30% of firms state that courts are honest/uncorrupted (EU8=34%) ○ Less than 25% of firms state that courts are fair/impartial (EU8=34%) ○ Almost 15% of firms state that bribery is frequent in dealing with courts (EU8=4%) ○ The ABA-CEELI Judicial Reform Index continues to find improper influence plays a role in judicial decision-making. • Income and asset declaration system does not appear to have had major impact in reducing corruption, and seems to need strengthening.
Private sector	<p><i>Promising areas</i></p> <ul style="list-style-type: none"> • Private sector is introducing / strengthening efforts to improve corporate governance and programs for good corporate citizenship. • Further strengthening dialogue among social partners <p><i>Obstacles</i></p> <ul style="list-style-type: none"> • Limited coordination among existing umbrella organizations impedes dialogue with Government • Perception that procedure for public sales creates opportunities for corruption.
3. How the Bank should engage where governance is weak, and circumstances under which to disengage	
Government	<ul style="list-style-type: none"> • Places where the Bank can constructively engage <ul style="list-style-type: none"> ○ Monitoring the investment climate ○ Support for judicial reform

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	<ul style="list-style-type: none"> ○ Regulatory reforms ○ Helping access, manage and transparently spend resources (e.g. EU structural funds) ● Places where the Bank might be very cautious or not engage <ul style="list-style-type: none"> ○ Bank needs to take care that reputation for impartiality and professionalism is not damaged ○ Ad hoc and a-systemic advice and support is considered risky
Legislature	<ul style="list-style-type: none"> ● Places where the Bank can constructively engage ● Members of Parliament believe that the Bank can play a useful role simply by sharing information and not excluding members of Parliament from the dialogue
Civil Society and Development Partners	<p><i>Promising areas for engagement</i></p> <ul style="list-style-type: none"> ● The Bank can play a more active role in bringing global best practices for improving governance and fighting corruption ● Continued active Bank engagement in judicial reform ● Analytical work that places Bulgaria in international context with respect to governance and corruption ● Advocating the importance of governance and anti-corruption with the government, through work that relates the quality of governance to economic performance <p><i>Disengagement</i></p> <ul style="list-style-type: none"> ● Where Bank engagement could be abused for political purposes.
Private sector	<p><i>Promising areas for engagement</i></p> <p>Supporting prudent macro-economic management, fiscal transparency and all measures improving the investment climate, including judicial and regulatory reforms, are considered traditional strengths of Bank support</p>
4. How to ensure fair and consistent treatment across countries	
Legislature	<ul style="list-style-type: none"> ● Greater transparency and openness in the Bank's work

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	<ul style="list-style-type: none"> • Appropriate balance between a global strategy and country-specific approaches
Civil Society and Development Partners	<ul style="list-style-type: none"> • Greater transparency and openness in the Bank's work • Appropriate balance between a global strategy and country-specific approaches
5. How to strengthen the Bank's work with champions of reform outside the executive branch of government – parliament, judiciary, civil society, media and the private sector	
Legislature	Up-front consultations prior to reaching agreement on Bank support; and maintaining transparency throughout implementation are considered helpful, even more so when reforms touch sensitive sectors / subjects.
Civil Society and Development Partners	<ul style="list-style-type: none"> • The Bank could be more engaged with justice sector institutions, such as the courts and the prosecutors, to combat corruption and improve governance (e.g. through helping to finance the investment needs of the judiciary) • Bank engagement with think tanks and civil society in governance-related areas such as monitoring corruption, providing information/inputs/suggestions to civil society and collaboration/partnerships with think tanks devoted to these issues. • More collaboration with business associations
Private sector	Greater involvement of stakeholders (including businesses) in consultations and throughout reform process
6. How to mitigate fiduciary risk in Bank operations?	
Government	Use country systems now that Bulgaria is a EU member, and strengthen Bank supervision
Legislature	Greater controls and safeguards
Civil Society and Development Partners	<ul style="list-style-type: none"> • More intensive supervision, especially for high-risk projects • Sustain medium-term capacity building programs especially in areas vulnerable to corruption e.g. revenue administration, land administration, health sector, and the judiciary

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7. The Bank's role vis-à-vis other donors in supporting governance reform	
Government	<ul style="list-style-type: none"> • Collaborate closely with the EU, and in support of EU full integration • Bring European / global best practice and analytical support to policy makers
Legislature	Share European / global best practice and analytical insights with legislature and executive
8. How to monitor progress in governance and anticorruption at the country level	
Government	<ul style="list-style-type: none"> • Continue activities such as BEEPS, ICA, and Doing Business monitoring, and consider such exercises at the regional and municipal level -- benchmarking vis-à-vis other countries is considered particularly helpful • Monitor the regulatory environment • Assist the government to strengthen the quality of service delivery • Develop local-self government capacity
Legislature	Continue activities such as BEEPS, ICA, and Doing Business monitoring, and consider such exercises at the regional and municipal level -- benchmarking vis-à-vis other countries is considered particularly helpful
Civil Society and Development Partners	<ul style="list-style-type: none"> • Continue activities such as BEEPS, ICA, and Doing Business monitoring, and consider such exercises at the regional and municipal level -- benchmarking vis-à-vis other countries is considered particularly helpful • Civil Society also would welcome direct support by ,and engagement with, the World Bank in GAC monitoring
9. Areas for improvement in GAC strategy and country-level support	
Legislature	Continue to provide targeted analytical insights such as BEEPS and recent ACT report
Civil Society and Development Partners	<ul style="list-style-type: none"> • Development of clearer criteria and methods for engagement with countries on governance and corruption • More involvement at the subnational level

Respondent Type	Consultation Reply
Private Sector	More involvement with the private sector