

Doing Business Reform Memorandum

Bulgaria

October 2015



Introduction

Bulgaria experienced strong economic growth prior to and shortly after joining the European Union (EU) in 2007. Bulgaria's economic growth of 6 per cent a year in real per capita PPP terms between 2000 and 2013 was the strongest in the EU. Foreign Direct Investment (FDI) inflows grew at a rate of 40 per cent of Gross Domestic Product (GDP) a year until the period 2005-2008. FDI was, in fact, mainly channeled to non-tradable sectors, like construction, real estate, transport and tourism, which provided an abundant labor force. About 600,000 new jobs were created. Foreign investments were also made in high value added industries of the economy, like information and communication technologies (ICT) and pharma, which accelerated their pace of development in the early 2000s. These two sectors, eventually, became one of the key innovation drivers of the economy, instigating a unique innovation ecosystem that started to grow since 2009. In addition to the jump in FDI flows, the fast rate economic growth was supported by other macroeconomic factors, including the currency board, which pegged the national currency (Bulgarian lev) to the deutsche mark (1997) and then to the euro (1999); sustainable macroeconomic reforms; integration with the EU through accession negotiations and membership to the club (in 2007), low tax rate (corporate tax of 10 per cent); and a relatively highly-skilled work force.¹

The impact of the global financial crisis, however, drastically slowed down Bulgaria's growth rate. Between 2008 and 2013 annual GDP per capita growth went down to just 1 per cent. About 400,000 Bulgarians lost their jobs, mostly in industry, construction, and agriculture. The official unemployment rate climbed up to 13 per cent in 2013, mainly affecting the portion of the workforce who'd only gained a primary education. As a result, the poverty rate rose from 16.1 per cent of Bulgarians in 2008 to 18.5 per cent by 2012.²

Yet, Bulgaria has managed to recover in recent years by intensifying and diversifying its export market share. Bulgaria was among the 4 top Eastern European countries (together with Croatia, Poland and Romania) which managed to gain export market share between 2010 and 2014. This growth in market share can be attributed to the intensification

¹ The currency board has been a key factor for guaranteeing macro-fiscal stability. Yet, the fiscal balance worsened abruptly from a surplus of 1.6 per cent of GDP in 2008 to a deficit of 4.2 per cent in 2009, and Bulgaria became subject to the EU Excessive Deficit Procedure (EDP) when the deficit exceeded the EU Growth and Stability Pact threshold of 3 per cent of GDP. Nevertheless, the excessive deficit was corrected quickly and since 2011 deficits have been at or below 2 per cent of GDP, among the lowest in the EU. Public debt stood at only 18.3 per cent of GDP in 2013 was the second lowest in the EU. The country's current account deficit moved from 24 per cent of GDP in 2007 to smaller deficits and even a surplus of 1.8 per cent in 2013 as a result of fewer imports, higher transfers due to faster absorption of EU funds, and a solid recovery in exports of goods. For more discussion of the macro-economic context, see World Bank (2015). *Bulgaria Systematic Country Diagnostic. Sustainable Growth and Shared Prosperity: Today and Tomorrow*. Washington DC.

² Ibid.

of existing trade flows. Bulgaria succeeded in diversifying its export base in established markets and started to raise the number of export destinations for existing products.³

The Bulgarian Government recognizes that improving Bulgaria's business environment would help unlock job creation and economic growth. Since 2008, the government has demonstrated a commitment to improving the business environment, and launched a number of initiatives aiming to target business environment constraints. The Better Regulation Program is one such initiative, which includes the development of annual action plans that aim to reduce the administrative burden for businesses. Three of the Action Plans have been adopted by the Bulgarian government. The first one was adopted in 2010 for the period 2010-2012, and successfully cut the administrative burden by 20 per cent. The second one had a similar impact and cut the administrative burden by a further 20 per cent in the period 2012-2014. The most recent one was adopted in May 2015, and it aims to cut red tape by 30 per cent for the period 2015-2017.⁴ The government also used the regulatory guillotine in 2013, which aimed to cut the regulatory burden through the introduction of over 100 measures.⁵

However, the implementation of regulatory initiatives has had mixed success. Under the Better Regulation Program, the government adopted over 100 measures to reduce the regulatory and administrative burden, but no formal mechanism was introduced to regularly monitor and review its implementation at the national or municipal level. Some areas in which entrepreneurs expected to see improved efficiency, actually saw setbacks. The time needed to get a construction permit, import license, or operational license almost doubled between 2008 and 2013, and senior managers of firms reported that they were spending more time – 22 per cent in 2013 – dealing with public officials or public services than in 2008, when it took 14 per cent of their time.⁶

At the central level, the government introduced the online public consultation portal (www.strategy.bg), which was recognized as good practice of digital democracy by the Parliamentary Assembly of the Organization for Security and Co-operation in Europe. However, in practice, the public consultation process is not yet systematically implemented, and public consultation does not take place for many government initiatives.

³ World Bank (2015). *EU Regular Economic Report: Modest Recovery, Global Risk*. Europe and Central Asia. World Bank Group. May 2015.

⁴ They are accessible at: (<http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bg-BG&Id=960>)

⁵ The first Bulgarian Regulation Program 2008-2010 was developed with the support of international institutions, like the World Bank and Organization for Economic Co-operation and Development (OECD). The goals of the Program were aimed at (i) simplification of administrative regimes; (ii) creation of an institutional structure to implement the better regulation policy; (iii) stimulation of the dialogue with the stakeholders; (iv) implementation of better regulatory policies at the local level. In 2010 the Program was extended until 2013 and 3 specific goals were set, namely: (i) improvement of the administrative regulation; (ii) introduction of regulatory impact assessment, and (iii) improvement of administrative service delivery through e-governance.

⁶ 2013 Business Environment Enterprise Survey (BEEPS).

At the municipal level, the implementation of administrative reform has been inconsistent. Different municipalities followed different procedures, with different documentation requirements and fee schedules for delivering the same services. While most local administrations were well computerized, electronic services were limited largely to second-generation reforms based on websites offering only basic information and application forms for a subset of administrative services.

The current Bulgarian government made administrative reform and better regulation a policy priority. The Deputy Prime Minister for Coalition Policy and State Administration holds the political leadership for the Better Regulation Agenda. The Council for Administrative Reform, established in 2009 and chaired by the Deputy Prime Minister, is the main platform for discussing administrative reform.⁷ The council has already had traction: new legislation related to the introduction of mandatory regulatory impact assessment is close to adoption; the council is aiming to improve transparency at all bureaucratic levels and established a new E-Government Agency in June 2015; the council and the government as a whole are working to improve the accessibility of public registers and data for businesses and citizens, called the Open Data initiative. Government efforts in the better regulation agenda are in line with key strategic documents, including the Government's Program for Sustainable Development of the Republic of Bulgaria (2014-2018); the Strategy for the Development of Public Administration (2014-2020); the National Program for Development: Bulgaria 2020; the National Program for Reforms of the Republic of Bulgaria in line with the implementation of the Europe 2020 Strategy; Second Action Plan of the Republic of Bulgaria under the initiative "Partnership for Open Management"; and the Strategy for Continuation of the Judicial Reform.

Bulgaria's Business Environment as Measured by International Benchmarks

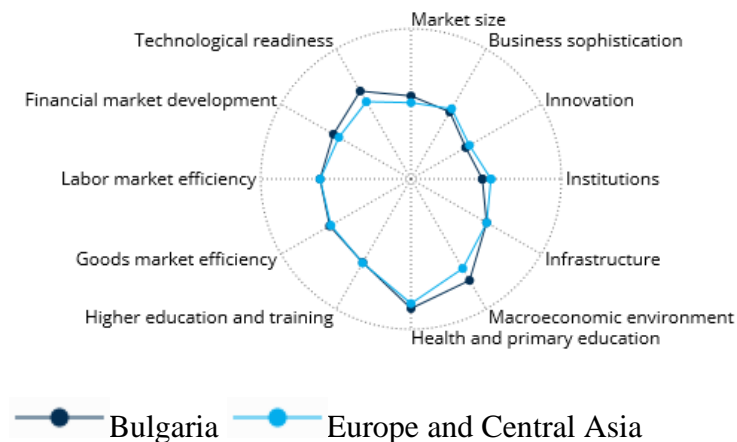
The overall business environment in an economy depends on many factors, ranging from market size, macroeconomic conditions, and business regulations. A number of international benchmarks and surveys aim at identifying key constraints to a country's competitiveness and private sector development. The World Economic Forum's (WEF) Global Competitiveness Report aims to measure competitiveness across 12 pillars measuring different aspects of investment climate. The results are derived to a large extent from WEF's Executive Opinion Survey, which also provides firm-level insights on the top barriers to doing business in each economy. The World Bank's World Investment and Political Risk survey examines the short- and medium-term obstacles to investment in the next 1 to 3 years. Similarly, the World Bank's Enterprise Surveys, last conducted in Bulgaria in 2013, collect data from firms varying in size, sector, and industry to assess firm-level perceptions of the investment climate. The World Bank Group's Doing Business

⁷ For more information about the Council, please see, http://saveti.government.bg/web/cc_203/1.

indicators focus on the impact of laws, regulations and their enforcement on the ease of doing business for domestic firms in 10 areas, from starting a business to insolvency. While such benchmarks only give an indication of the overall enabling environment for firms, they can help the government of Bulgaria to identify specific areas of business regulation in need of reform, to create a more business-friendly environment for firms, supporting private sector productivity and growth.

In WEF's Global Competitiveness Index, Bulgaria ranked 54th out of 148 countries in the latest report (2014-2015). The country is classified as an efficiency-driven economy. Bulgaria's highest rankings are in the categories of Macroeconomic Environment (36th out of 148), Technological Readiness (41st out of 148), and Health and Primary Education (51st out of 148). It scores in the bottom third globally on the pillars Institutions (112th), Business Sophistication (105th), and Innovation (105th). Over the last 4 years, Bulgaria improved in 6 of the 12 pillars, including Infrastructure, Health and Primary Education, Higher Education and Training, Goods Market Efficiency, Financial Market Development, and Technological Readiness. There was no significant change in the pillars on Market Size and Business Sophistication, and a decline was recorded in Institutions, Macroeconomic Environment, Labor Market Efficiency, and Innovation. (Figure 1.1)

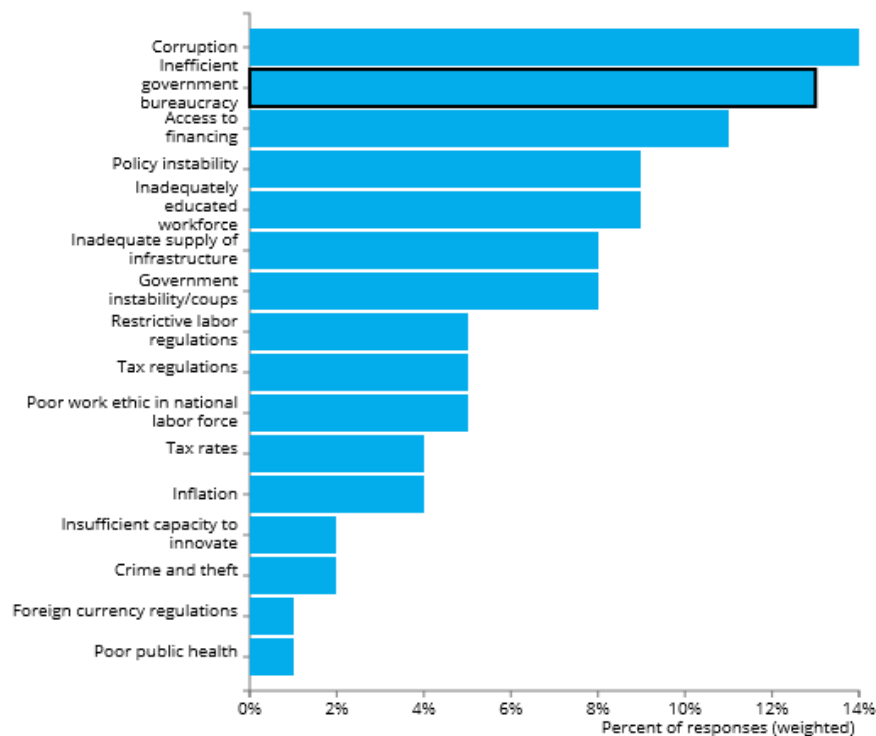
Figure 1.1: Bulgaria's performance on the Global Competitiveness Index (2014-2015)



Source: Global Competitiveness Report, 2014-2015 (WEF)

Firms interviewed in WEF's Executive Opinion Survey identify 5 key obstacles to doing business. Nearly 14 per cent of firms point to corruption as the main obstacle to business; 13 per cent cite inefficient government bureaucracy; 11 per cent identify access to finance; and 9 per cent see policy instability and an inadequately educated workforce as the key constraints to business. (Figure 1.2)

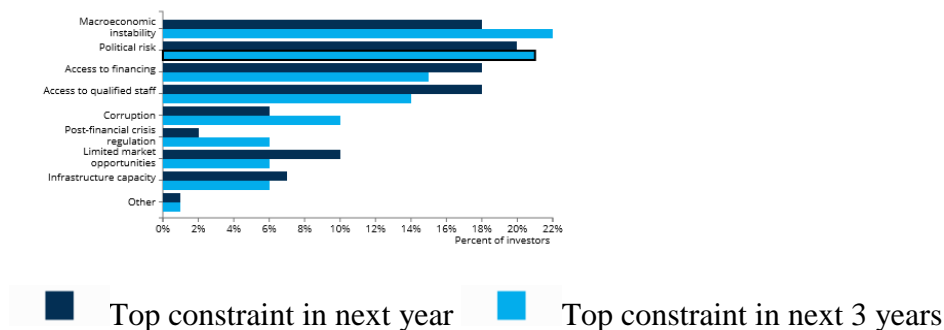
Figure 1.2: Top 10 Obstacles to Doing Business, % of Bulgarian firms



Source: WEF's Executive Opinion Survey (2014-2015)

Another study, the World Investment and Political Risk survey, presents a forward looking picture of entrepreneurs' perceptions of short and medium term obstacles to investment in the next 1 to 3 years. The business community expects that political risk and corruption remain burdensome in the near future while macroeconomic stability is also expected to deteriorate and become more of a hurdle in the next 1-3 years. (Figure 1.3).

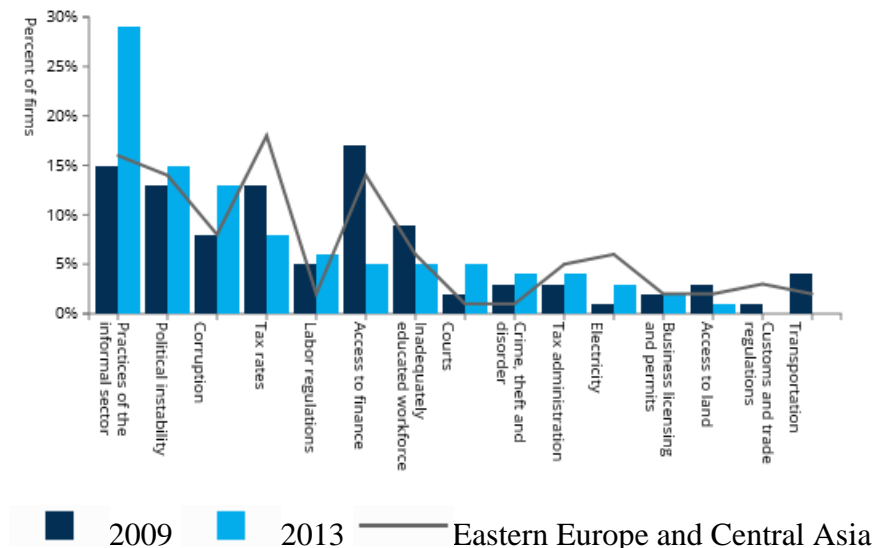
Figure 1.3: Key constraints to investment, Bulgaria



Source: World Investment and Political Risk survey (World Bank Group, 2013)

Further insights into entrepreneurs' perceptions of the business environment are offered by the World Bank Group's Enterprise Survey (conducted in Bulgaria in 2009 and 2013). The survey shows a substantial increase in respondents, from 15 per cent in 2009 to 28 per cent in 2013, identifying informal practices as the leading constraint to doing business. This result also significantly exceeds the regional average of 16 per cent of firms identifying informal practices as the main obstacle. Nearly 14 per cent identified political instability as the main obstacle, similar to the regional average of around 15 per cent for the same indicator. The next 2 top responses were corruption (13 per cent) and taxes (8 per cent), followed closely by labor regulations, access to finance, an inadequately educated labor force, and courts from the list of 15 potential obstacles. Access to finance, often featuring among the top obstacles perceived in other countries, was only 6th on the list (see Figure 1.4).

Figure 1.4: Top 10 Obstacles to Doing Business, % of Bulgarian firms, Enterprise Surveys, 2013



Source: World Bank Enterprise Surveys

The results vary slightly depending on the firm size. Corruption weighs equally on the minds of all firms – small, medium, and large. However, small and medium firms find informal practices twice as burdensome as large firms. This may be because informal competitors are often small to medium in size and compete mainly in that space, unable to break into large firm operations. The data also show that in the Bulgarian context, an insufficiently educated workforce, taxes, and licenses affect small and medium firms more negatively. For small firms, access to finance is also cited as a serious constraint. Medium firms report particular difficulties with labor regulations, which may reflect their efforts to grow their operations while facing difficulties complying with labor laws.

The final diagnostic study considered in this memo is the Doing Business report, which is also the basis for the reform recommendations presented in the document. According to last year's Doing Business report, business regulation in Bulgaria varies significantly across the areas measured. Bulgaria is among the global top 50 performers in 4 of the 10 areas— specifically, Protecting Minority Shareholders (14th), Getting Credit (23rd), Resolving Insolvency (38th), and Starting a Business (49th). Bulgaria's performance lags behind in four areas – Getting Electricity (125th), Dealing with Construction Permits (101st), Paying Taxes (89th), and Enforcing Contracts (75th) (Figure 1.5).

A similar variation is reflected by the Distance to the Frontier (DTF) metric, which provides an indication of how far a country's performance is from global good practice. Bulgaria scores 71.8 points, ahead of the regional average of 66.67 points. Bulgaria outperforms the regional average on 7 of the 10 indicators (excluding Registering Property, Paying Taxes, and Enforcing Contracts) (Figure 1.6)

Figure 1.5: Bulgaria's rankings on Doing Business Indicators, 2015

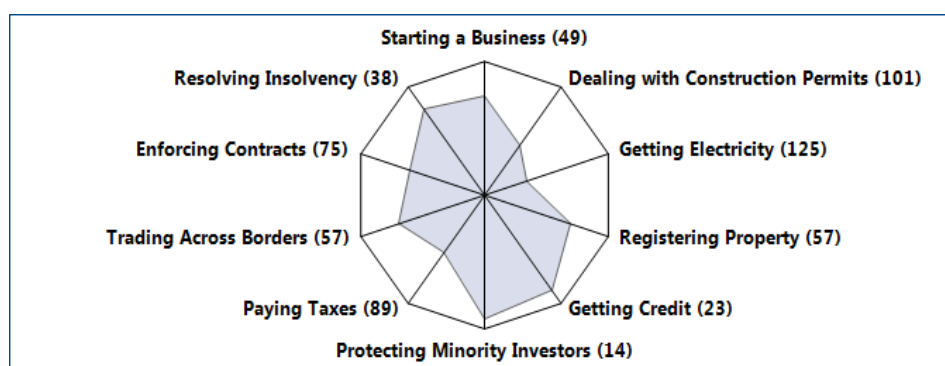
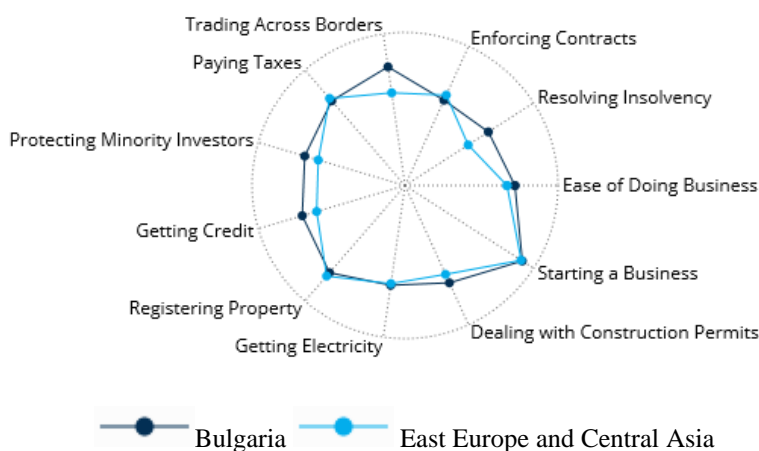


Figure 1.6: Bulgaria's performance on the Distance to the Frontier Metric



Source: Doing Business 2015

Since 2007, Bulgaria has engaged in 14 reforms recognized by Doing Business, in 6 of the 10 areas covered by the report, although the pace of reforms has slowed down since 2010. Most recently, in 2014, Bulgaria made starting a business easier by lowering registration fees. In the period 2012-2013, Bulgaria made trading across borders faster by introducing online submission of customs declaration forms, amended its commerce act to extend further rights to secured creditors, and increased the efficiency of insolvency proceedings. In 2011, Bulgaria eased business start-up by reducing the minimum capital requirement from 5,000 leva (\$3,250) to 2 leva (\$1.30). During the period 2009-2010, a number of reforms were implemented. In 2010, Bulgaria made starting a business easier by reducing the paid-in minimum capital requirement; enhancing the efficiency at the company registry; and creating a centralized electronic database for commercial registration, which consolidated registration procedures and eliminated some registration formalities. Bulgaria reduced the time to register property by launching an integrated web-based property register, and making it possible to check the ownership and Cadaster status of properties online. Bulgaria also made paying taxes easier for companies by introducing new corporate income and value added tax (VAT) laws, abolishing the requirement for an additional annual VAT return, and reducing the employer share of social security contributions. Furthermore, the contract enforcement system was improved by amending rules for evidence and default judgment, raising the minimum threshold value for the lower jurisdiction, and giving the civil court of last instance the power to select which cases to hear so as to limit abuse of the appeals process. Bulgaria adopted a new civil procedure code and a new law for the commercial registry, introducing changes aimed at reducing delays and allowing for faster resolution of insolvency cases. Among other aspects, the commercial registry law requires that major decisions and rulings of the bankruptcy court be posted on the commercial registry's website. In 2008, Bulgaria made paying taxes easier and less costly for companies by encouraging electronic filing and payment, and by reducing the corporate income tax rate and employers' social security contribution rate. In the same year, changes to the judicial system were introduced, increasing transparency in the system and appointing private bailiffs.

Scope of the Reform Memorandum

The reform memorandum addresses a number of gaps that require different degrees of intervention by the government. It highlights potential reform opportunities in the areas covered by the Doing Business report that would allow the government to have a direct impact on business conditions by addressing some of these shortcomings through legal, regulatory or administrative reforms.⁸

⁸ It must be noted that the reform memorandum does not include recommendations on the Getting Electricity indicator as the topic is outside of the scope of work covered by the Trade and Competitiveness Global Practice of the World Bank Group.

A series of inputs are used from primary and secondary sources to develop the memorandum. The document uses inputs from a series of face-to-face meetings with government officials, private sector participants, academics, and experts during a technical visit in Sofia, which was conducted by the World Bank Group team during the period June 15-19, 2015. The team also used additional sources as inputs to the report, including strategy papers, a number of relevant laws, and diagnostic reports published by The World Bank Group and WEF. Lastly, the policy recommendations are based on the Doing Business data and methodology as published in the Doing Business 2015 report.⁹ The data refer to the status as of June 2014.

The report, however, does not provide a comprehensive overview of all investment climate issues in Bulgaria. The recommendations focus on:

- ✓ Reduction of the administrative burden to businesses with a focus primarily on small and medium size domestic firms;
- ✓ Strengthening the regulatory and institutional framework to improve transparency and predictability of the policy and its implementation.

Some of the recommendations provided in this document are actionable in the short term, without major legal changes. Other recommendations are implementable in a longer time frame. The suggested time frames are based on the experience in other countries, and may be subject to adjustment based on the particular political economy context of Bulgaria. Table 1.1 provides a summary of the short- and medium-term reform recommendations which are described in more detail in this memorandum. All actions require consultations and coordination with a variety of stakeholders. In this regard, the World Bank Group can provide assistance to the government of Bulgaria in order to support implementation of regulatory reforms to facilitate the ease of doing business.

Finally, communicating reforms to beneficiaries and monitoring their implementation is key to reform success. International best practice suggests that monitoring the implementation and impact of reforms highlights areas of success as well as areas where further effort is needed. Communicating reforms effectively to implementing agencies, the business and legal communities, and the general public ensures that changes are accepted and put into practice consistently. Therefore, improving the regulatory environment to facilitate the creation and growth of businesses is a major undertaking, and requires strong political leadership and accountability mechanisms. Improvement to the business environment can help build a foundation for the private sector's sustainable development, providing businesses in Bulgaria with the opportunity to operate in a regulatory and institutional environment, conducive to competition, innovation and a high value economy.

⁹ For more information about the Doing Business report methodology, see <http://doingbusiness.org/methodology>.

Table 1.1: Bulgaria's Performance on the Doing Business Indicators and Suggested Short- and Medium-term Recommendations

Topics	Indicators (2015 DB Report)	Short-term recommendations	Medium-term recommendations
Starting a Business	Procedures: 4 Days: 18 Cost (% of income per capita): 0.8 per cent Paid-in min. capita (% of income per capita): 0 per cent Global rank: 49 out of 189 DTF (0-100): 91.09	<ul style="list-style-type: none"> ✓ Remove the requirement to open a bank account and deposit the symbolic 1 euro minimum required capital as part of the pre-registration requirements; ✓ Further reduce deadlines for company registration at the Commercial Registry. 	<ul style="list-style-type: none"> ✓ Decrease the VAT registration time or allow for simultaneous business and VAT registration; ✓ Further reduce the business registration fees through the application of a cost recovery principle. ✓ Eliminate the need to physically visit the Commercial Registry to collect the (newly) registered company's certificates.
Dealing with Construction Permits	Procedures: 16 Days: 110 Cost (% of warehouse value): 4.5 per cent Global rank: 101 out of 189 DTF (0-100): 69.85	<ul style="list-style-type: none"> ✓ Develop clear and actionable guidelines and checklists for building sector professionals and investors, and make these available to the public together with agency regulations and applicable legislation. Combine this reform with the possibility of interacting with a single building-permit official for a preliminary project screening; ✓ Consolidate application forms and streamline requirements for building-related permits; ✓ Provide training events and seminars with key stakeholder groups – e.g. engineers, architects, building companies and public officials – to inform construction sector practitioners on the novelties introduced by the Euro code and its national annexes; ✓ Consider charging lower fees for small projects presenting no risk for public health and safety; ✓ Eliminate the requirement to obtain an official decision from the Director of the Regional Inspectorate of Environment and Forestry Protection on whether simpler projects require an Environmental Impact Assessment; ✓ Develop service delivery standards for the agencies involved in the building permitting process, as well as systems to track compliance to such standards. 	<ul style="list-style-type: none"> ✓ Create a dispute resolution mechanism for compliance issues relating to building-code requirements; ✓ Clarify the roles and responsibilities of supervisory agents vis-à-vis municipalities and other stakeholders in the building permitting process; ✓ Establish a one-stop shop for all building-related permits and clearances; ✓ Computerize the building permitting process; ✓ Increase collaboration between Geodesic, Cartography and Cadaster Agency (GCCA) and Sofia Municipality to create robust links between multi-layered Cadaster and Geographic Information System (GIS); provide appropriate access to both systems for the private sector.
Registering Property	Procedures: 7 Days: 10 Cost (% of property value): 2.9 per cent Global rank: 57 out of 189 DTF (0-100): 75.36	<ul style="list-style-type: none"> ✓ Assess the feasibility of introducing lower fees for property registration; ✓ Eliminate the requirement to obtain a certificate of separate good standing from the Registration Agency. 	<ul style="list-style-type: none"> ✓ Increase cadastral coverage by strengthening Geodesy, Cartography and Cadaster Agency (GCCA)'s capacity and responsibilities; ✓ Explore the possibility of making the notary's signature of the sale agreement optional;

Topics	Indicators (2015 DB Report)	Short-term recommendations	Medium-term recommendations
			<ul style="list-style-type: none"> ✓ Evaluate opportunities to streamline the property registration requirements, for example by improving the exchange of information between the agencies involved in the process; ✓ Create an electronic platform offering the possibility of online property transfers; ✓ Merge Land Registry and the Cadaster functions into a single administrative agency
Getting Credit	Legal Rights index (0-12): 9 Credit Information index (0-8): 5 Credit registry coverage (% of adults): 62.9 per cent Global rank: 23 out of 189 DTF (0-100): 70.00	<ul style="list-style-type: none"> ✓ Expand the sources of information to include retailers and utility companies. 	<ul style="list-style-type: none"> ✓ Introduce credit scores; ✓ Distribute at least 2 years of historical data; ✓ Create an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of 4 functional equivalents to security interests in movable assets: fiduciary transfer of title; financial leases; assignment or transfer of receivables; and sales with retention of title; ✓ Create a notice-based collateral registry in which all functional equivalents can be registered; ✓ Create a modern collateral registry in which registrations, amendments, renewals, cancellations and searches can be performed online by any interested third party.
Protecting Minority Investors	Extent of conflict of interest regulation index (0-10): 6.3 Extent of shareholder governance index (0-10): 7.3 Strength of minority investor protection index (0-10): 6.8 Global rank: 14 out of 189 DTF (0-100): 68.33	<ul style="list-style-type: none"> ✓ Provide shareholders with rights to hold the interested director and directors liable for damages resulting from a related-party transaction. 	<ul style="list-style-type: none"> ✓ Review the provisions of the Commercial Law and the Criminal Code in line with international best practices regarding the rights of shareholders to hold the interested director and directors liable for damages resulting from a related-party transaction. ✓ Allow the plaintiff shareholders (minority shareholders) and/or their representatives to directly question directors (defendants or witnesses) during trial ✓ Prepare the needed legal recommendations
Paying Taxes	Number of payments per year: 13 Time (hours per year): 454 Global rank: 89 out of 189 DTF (0-100): 73.18	<ul style="list-style-type: none"> ✓ Continue providing tax outreach – education and training – to small and medium enterprises to ensure compliance and carry out communications campaigns to further increase the use of electronic filing; ✓ Simplify compliance rules for paying and withholding social security contributions. 	
Trading across Borders	Documents to export: 4 Days to export: 18	<ul style="list-style-type: none"> ✓ Improve inter-agency coordination for border management and clearance processes. 	<ul style="list-style-type: none"> ✓ Establish an electronic single-window system for all trade related transactions.

Topics	Indicators (2015 DB Report)	Short-term recommendations	Medium-term recommendations
	Cost to export (USD per container): 1,375 Documents to import: 5 Days to import: 17 Cost to import (USD per container): 1,365 Global rank: 57 out of 189 DTF (0-100): 78.34		
Enforcing Contracts	Time (days): 564 Cost (% of claim): 23.8 per cent Procedures: 38 Global rank: 75 out of 189 DTF (0-100) 61.27	<ul style="list-style-type: none"> ✓ Assess the effectiveness of court procedures in order to identify bottlenecks and formulate solutions, especially for using ICT applications; ✓ Assess commercial case data and workload; ✓ Consider introducing Pre-trial Conference mechanisms. 	✓ Continue improving the e-courts system by introducing e-filing and electronic service of process, including summons (by e-mail, SMS, e-fax, etc.).
Resolving insolvency	Time (years): 3.3 Cost (% of estate): 9 per cent Outcome (0 as piecemeal sale and 1 as going concern): 0 Recovery rate: 33.2 cents on the dollar. Strength of insolvency framework index (0-16): 15 Global rank: 38 out of 189 DTF (0-100): 64.75	The World Bank Group Debt Resolution team is currently working with the Bulgarian authorities in order to improve Bulgaria's insolvency framework. Upon the conclusion of the Report on the Observance of Standards and Codes (ROSC) in Q4 of 2015, the government will be presented with detailed recommendations for short, medium and long-term reforms to improve the quality of the insolvency framework, including – but not limited to – those dimensions of the insolvency framework that are measured by the “Resolving Insolvency” indicator.	

Indicators and suggested reform recommendations in detail:

Starting a Business	page 14
Dealing with Construction Permits	page 21
Registering Property	page 31
Getting Credit.....	page 38
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Paying Taxes.....	page 55
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Resolving Insolvency	page 71

Reform memorandum: Bulgaria

Starting a Business

Economies with the most efficient registration systems use simplified and standardized laws and documents. They operate a single electronic interface between the user and authorities; use a single central database for all companies and businesses, with interoperability between all agencies involved; have one single company ID; and charge one flat fee. In New Zealand, Canada, UK, Singapore and the United States, for example, an integrated IT system links the databases of relevant agencies (company registry, tax administration, social security system, statistics institute and related licensing authorities). The entrepreneur submits information and payment electronically via a website through a single form, and the company is automatically registered with all agencies. Legal formalities for company registration are embedded into the electronic system and, if all requirements are met and the payment is received, the system automatically processes the information and instantly issues the registration certificate. Companies are issued a single ID number, which is used across agencies. This facilitates compliance checks throughout the life of the company, and reduces the administrative burden of submitting information multiple times with different forms to several agencies. Norway has taken this a step further: since 2005, all public registers and public authorities have a legal obligation to use the data registered in the Central Coordinating Register for Legal Entities, instead of requiring businesses to resubmit this data to the concerned agency.¹⁰

Although the government of Bulgaria achieved significant reform success in 2006-7 by focusing on eliminating outdated requirements through legal amendments, as well as by merging and streamlining registration processes previously handled by multiple departments and agencies, there is still room for improvement in both legal and ICT procedures. These reforms enabled the electronic submission of documents, but failed to introduce a fully electronic processing for the submitted documents and fees, without the need for physical paper trails in the back-office or physical visits to the registry to receive the certificates for newly registered companies.¹¹

The Doing Business ‘Starting a Business’ indicator measures the procedures, cost, time and the paid-in minimum capital necessary for a domestic entrepreneur to register and formally operate a new business. Doing Business 2015 reported that entrepreneurs must go through 4 procedures, which take 18 days and cost on average 0.8 per cent of income per capita, to start a business in Sofia.

¹⁰ D. Christow, J. Olajsen, Business Registration Reform Case Study Norway, Investment Climate, 2011, World Bank Group.

¹¹ Based on IBRA mission findings, the electronic system is a hybrid between e-submission, manual processing in the back office, and manual receipt of certificates through a physical visit to the registry.

Globally, Bulgaria ranks 49th out of 189 economies in the ease of starting a business – ahead of Bosnia and Herzegovina (147), yet behind countries like Macedonia (3), Romania (38) and Armenia (5). While Bulgaria’s cost indicator is way below the average for the Europe and Central Asia region, its time indicator is way above the regional average (table 2.1), mostly because of the time needed for completion of VAT registration.

Table 2.1: Starting a Business in Bulgaria and best performers

Doing Business Indicator	Bulgaria	Regional best performer	Regional Average	Global best performer
Procedures (number)	4	Armenia; Georgia; Kyrgyz Republic; Macedonia, FYR; (2)	5	1 (New Zealand, Canada)
Time (days)	18	Georgia; Macedonia, FYR (2)	12.1	0.5 (New Zealand)
Cost (per cent of income per capita)	0.8	Kazakhstan (0.5)	5.3	0 (Slovenia)
Paid-in min. capital (per cent of income per capita)	0.0	19 economies in the Europe and Central Asia region have zero paid-in min. capital requirement	5.8	0 (135 economies)

Significant reform efforts have been underway since 2004, when Bulgaria started preparing strategies and policies for moving business registration from the judiciary to the executive, and turning it from a quasi-judicial process under the courts to a purely administrative service in a special Registration Agency under the Ministry of Justice (MoJ).¹² The reform took a couple of years to materialize and was marked by strong opposition in some circles of the legal establishment, the executive, and even the Office of the President.¹³ However, this major reform step was successfully completed by the end of 2006.

Before 2006, business registration was handled by 28 Regional Courts. Therefore, the biggest reform challenge was to bring all 28 paper-based company/business archives into

¹² D. Christow, Business Registration Reform Case Study Bulgaria, Investment Climate, 2011, World Bank Group

¹³ S.Jacobs, C.Massinde, Stakeholders’s Management in Business Registration, Case Study Bulgaria, IC, 2011, EBG

one electronic database, while at the same adjusting the underlying legal and institutional framework, including staffing the newly created Registration Agency with skilled and motivated staff. The reform was both legal and institutional, in terms of introducing the new Commercial Registry Law; amending and harmonizing the Commercial Law, the tax and the statistics laws, and all related secondary legislation; and introducing the new Registration Agency under the MoJ along with a new ICT system to enable online registration and electronic storage of documents. With combined efforts from the executive, the judiciary and the legislature, this reform was completed in late 2006 and the One-Stop Shop (OSS) under the Registry Agency went fully operational in 2007.¹⁴ Under the new system, the online and physical OSS within the Registry Agency¹⁵ is the single point of contact for starting a business, bringing together the business, tax and statistics (BULSTAT) registrations together with the applicable fees. This turned the Bulgarian system into a world-class system as far as best practices of online OSS are concerned.

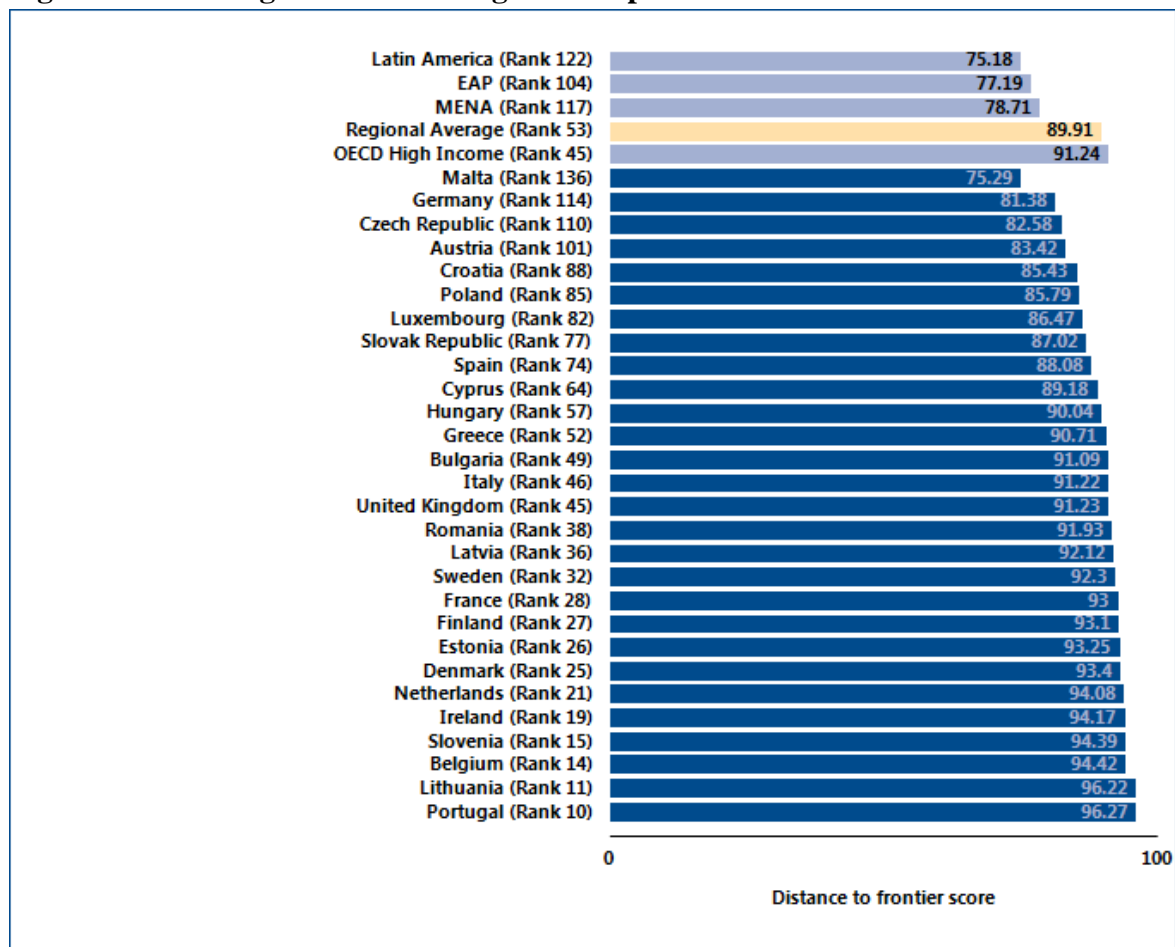
Other important procedures that were left out of the OSS for business start-up were the VAT registration (which remained with the Tax Authority under the Ministry of Finance) and the various permits and licenses for commercial activity (which were left with the municipalities and the line ministries). In addition to this major reform, which took place in 2006, in 2009 the government of Bulgaria enhanced the hardware and software system of the Commercial Registry within the Registry Agency, and in 2010 reduced the minimum capital requirement for newly registered companies to 1 euro.¹⁶ In 2013 and 2015, registration fees were additionally reduced, and in 2013 the deadlines for registering a new company were increased from 1 to 3 days to allow third parties to oppose any new entry against a company file, including new registrations, in an effort to prevent corporate theft.

¹⁴ D. Christow, Business Registration Reform Case Study Bulgaria, Investment Climate, 2011, World Bank Group.

¹⁵ The online Commercial Registry is available at <http://www.brra.bg/>

¹⁶ The capital-accruing bank account must be opened either by the company manager or by a person authorized by a notary-certified power of attorney. Those persons delegated authority over the bank account must provide a signature specimen in person or a notary-certified specimen. The amount of capital stays blocked in the bank account until the Registry issues a decision on the company's registration. The Commercial Act requires the minimum capital prescribed by law, i.e. BGN 2, to be paid-in prior to incorporation. After opening the escrow account and depositing the funds therein, the company under incorporation is issued a certificate evidencing the shareholders' deposit of the capital. The certificate must be presented before the Registry together with the application for company registration.

Figure 2.1. Starting a Business: Bulgaria compared to other EU member states



Source: Doing Business

Indicators over time

There have been a few significant reforms impacting Starting a Business in Bulgaria over the past 5 years. In 2015, Bulgaria made starting a business easier by lowering registration fees. In 2013, the cost of registration was reduced. In 2011, Bulgaria eased business start-up by reducing the minimum capital requirement from 5,000 leva (\$3,250) to 2 leva (\$1.30). In 2010, the paid-in minimum capital requirement was reduced and the overall efficiency at the company registry was improved. In 2009, a centralized electronic database for commercial registration was created, consolidating registration procedures and eliminating some registration formalities. It should be noted that, given the sophistication of the current system, particularly short-term recommendations concern marginal improvements.

Short-term reform recommendations:

Remove the requirement to open a bank account and deposit the 1 euro minimum required capital as part of the pre-registration requirements. Currently the minimum capital for a newly registered company is only 1 euro, but Commercial Law still requires that the company-in-formation opens a bank account, deposits the minimum capital and attaches the status of the bank account to the initial application for company registration. This requirement could be additionally streamlined by allowing companies to register by just declaring the minimum capital, and then depositing it within a month (or longer deadline) of the initial registration date. The elimination of the current requirement would remove 1 step and 1 day as well as the 30 BGN fee for the new bank account from the process of starting a business as measured by Doing Business.¹⁷

Further reduce deadlines for company registration at the Commercial Registry.¹⁸

The registration of new companies used to take 1 day until 2013, when the legal framework was amended to increase the deadline for all new entries into the Commercial Registry up to 3 days (including for initial company registration) in order to allow interested parties to familiarize themselves with every new entry made against the company file, and protest it if necessary. The rationale for this provision was to provide interested parties with enough time for notification and reaction to every new entry in the Commercial Registry in order to prevent corporate fraud and corporate theft. Although the provision has merits for post-registration entries, it is not practical for newly registered companies. It is not possible for a newly registered company to be “hijacked” at the very moment of initial registration. Reducing the time of registration from 3 days to 1 day would contribute to streamlining the procedure, and bring the time needed to register a company at par with top-performing countries such as New Zealand, Canada and Singapore.

Medium-term reform recommendations:

Decrease the VAT registration time or allow for simultaneous business and VAT registration. Currently, the VAT registration is a separate procedure from the automatic tax registration (TIN registration) which takes place simultaneously with company registration at the online OSS in the Commercial Registry. VAT registration requires a separate application, followed by a paper-based manual examination, and is processed and

¹⁷ This requires amendment of the Commercial Law and related laws, so it might become a mid-term reform depending on the depth of the reform.

¹⁸ The reduction of the deadline from 3 to 1 days is currently under review by Parliament as part of the new amendments of the Tourism Law.

completed by the National Revenue Agency (NRA) under the Ministry of Finance. Processing time is 14 days according to tax laws; in practice applicants wait an average of 12-14 days before receiving their VAT number. This procedure could be automated and introduced as an instant notice-based service in parallel with TIN registration. The NRA could undertake administrative measures to streamline the VAT registration procedure by developing an electronic process for VAT applications and necessary attachments, which would allow tax-payers to automatically convert their tax registration number into a VAT registration number.

The NRA is planning a similar initiative and is currently in the process of developing an application to introduce electronic VAT registration as a separate procedure with qualified e-signature (as opposed to just user name and password sign-in, or average e-signature). This would allow tax-payers to register electronically, and reduce the time and cost of inspecting whether or not the applicant meets the criteria to be VAT registered. It was also announced that the NRA had issued guidelines that the procedure should take 3-5 days for non-risky companies, and that VAT applicants would be allowed to present the necessary documents on the same day as their application for VAT registration¹⁹.

While this approach is likely to reduce time and costs, it would still maintain VAT registration as a separate procedure from the initial company/TIN registration and thus would still involve separate steps, procedures, documents and deadlines. Repeating the current paper-based process with electronic process would not be as effective as synchronizing and automating TIN and VAT registration as part of the initial company registration with the Commercial Registry. For instance, the VAT number could be the same as the TIN/ Business Registration Number, but with the prefix “VAT” or “BG” added to the already issued TIN number. This approach would eliminate the need for secondary VAT registration and significantly reduce the time and cost for business registration, as well as the burden on both the applicants (tax-payers) and the NRA.

Eliminate the need to visit physically the Commercial Registry in order collect the (newly) registered company’s certificates. The 2007-09 reforms enabled the electronic submission of documents, but failed to introduce a fully electronic processing of the submitted documents and fees, without the need for physical paper trails in the back-office or a physical visit to the registry in order to receive the certificates for newly registered companies.²⁰ The Bulgarian authorities could further streamline the operation of the back and the front-offices of the Commercial Registry, so that customers do not need to visit in person to submit or receive documents, and pay fees. An enhanced ICT system and

¹⁹ Today it is possible for applicants to apply for VAT registration, and then on a later day present the supporting documents which may further delay the process of final VAT registration.

²⁰ Based on WBG mission findings, the electronic system is a hybrid between e-submission, manual processing in the back office, and manual receipt of the certificates through a physical visit to the registry.

appropriate amendments in the legal framework (the Commercial Registry Act and the Entry Decree²¹) would allow customers to receive registration certificates, updates and company status reports online via e-mail or SMS, without the need to physically visit the Registry.

Consider reducing business registration fees through the application of a cost recovery principle. It is not clear whether current registration and post-registration fees are based on a cost-recovery basis, or on subjective criteria, allowing the Registration Agency to generate significant revenue.²² The electronic application for a new company is BGN 55, while the paper application is BGN 110. However, applying the cost-recovery principle should be based on careful analysis, considering the significant workload of the Registration Agency, including the existing 800 000 companies, and the announced forthcoming addition of the Non-Profit Registry and the Collateral Registry for Movable Securities to the Registration Agency in the short run.

²¹ In Bulgarian “Naredba po vpisvaniqta”

²² All fees related to changes in the company file after the initial registration, i.e. any change of particularities in the file

Dealing with Construction Permits

Reforms that make construction regulations more efficient and transparent can help reduce corruption and informality, while encouraging construction companies to go through formal channels and ensuring compliance with important standards, such as those impacting safety or mitigating climate change. Good regulations, combined with sound enforcement mechanisms, ensure safety standards that protect the public while making the permitting process efficient, transparent and affordable for both building authorities and private professionals who use it. A recent study shows that long delays to obtain permits could lead to higher transaction costs and fewer transactions.²³ However, the payoff of construction permitting reforms can be significant. In 2005, a PriceWaterhouseCoopers study found that accelerating permit processes in the United States could permanently increase government revenues.²⁴ Examining the impact of building permit reforms on new income generation, for every 10 jobs directly related to a construction project, another 8 jobs are created locally.²⁵ These impacts not only yield additional income for the community, but also additional investments and tax revenues for the government. Beyond economic returns and the pay-off in attracting more investment, the most important benefit of building permit reforms is to protect public safety.

Efficient building permitting systems share key features. Clear building codes written with a consultative process are at the core of well-designed construction permitting systems, and countries like Canada and New Zealand are increasingly steering towards performance-based codes.²⁶ Germany, Singapore and Mauritius have incorporated risk-management tools to streamline the issuing of permits and optimize the effectiveness of inspections. Up-to-date land use and zoning plans improve transparency and predictability for developers.²⁷ Establishing sound licensing mechanisms for practitioners, in addition to well-functioning

²³ Sonia Hamman, "Housing matters, Volume 1," Policy Research Working Paper 6876, 2014. In particular, the paper mentions that "Mayer and Somerville's (2000) study of U.S. regulations estimates that a metropolitan area with a 4.5-month delay in approval and two different types of growth-control restrictions would have about 45 percent less construction than a metropolitan area with a 1.5-month delay and no growth management policy."

²⁴ For a single building project, accelerating permit processes provides a temporary acceleration of property tax collections. For a representative series of projects, the study shows that these revenue increases could reach 16 per cent over a period of 5 years. "Economic Impact of Accelerating Permit Processes on Local Development and Government Revenues" PriceWaterhouseCoopers, December 2005.

²⁵ PricewaterhouseCoopers. 2005. "Economic Impact of Accelerating Permit Processes on Local Development and Government Revenues." Report prepared for the American Institute of Architects, Washington, DC.

²⁶ Performance-based codes provide more flexibility and support innovation by focusing on outcomes to be achieved rather than prescribing how the building must be constructed. The use of performance-based codes, however, requires a higher level of technical competence to enforce than do other approaches.

²⁷ World Bank. 2013. "Urbanization beyond Municipal Boundaries: Nurturing Metropolitan Economies and Connecting Peri-Urban Areas in India." Directions in Development. Washington, DC: World Bank, p. 44.

liability regimes and compulsory insurance systems, have become pivotal in order to introduce more efficient regulatory systems.

Many countries are outsourcing building control procedures to the private sector. For example, France and the UK introduced inspections by accredited bodies, which in turn required improvements in their private liability and insurance regimes.²⁸

The Doing Business Dealing with Construction Permits indicator records all procedures, time and cost required to build a warehouse and connect to utilities in Sofia, following all the official requirements. Currently, Bulgaria ranks 101st out of 189 economies globally, and 9th out of 26 economies in the Eastern Europe and Central Asia region. Bulgaria compares favorably with the averages registered in this region but it is far from its best performing economies (table 3.1).

Table 3.1 Dealing with Construction Permits in Bulgaria and best performers

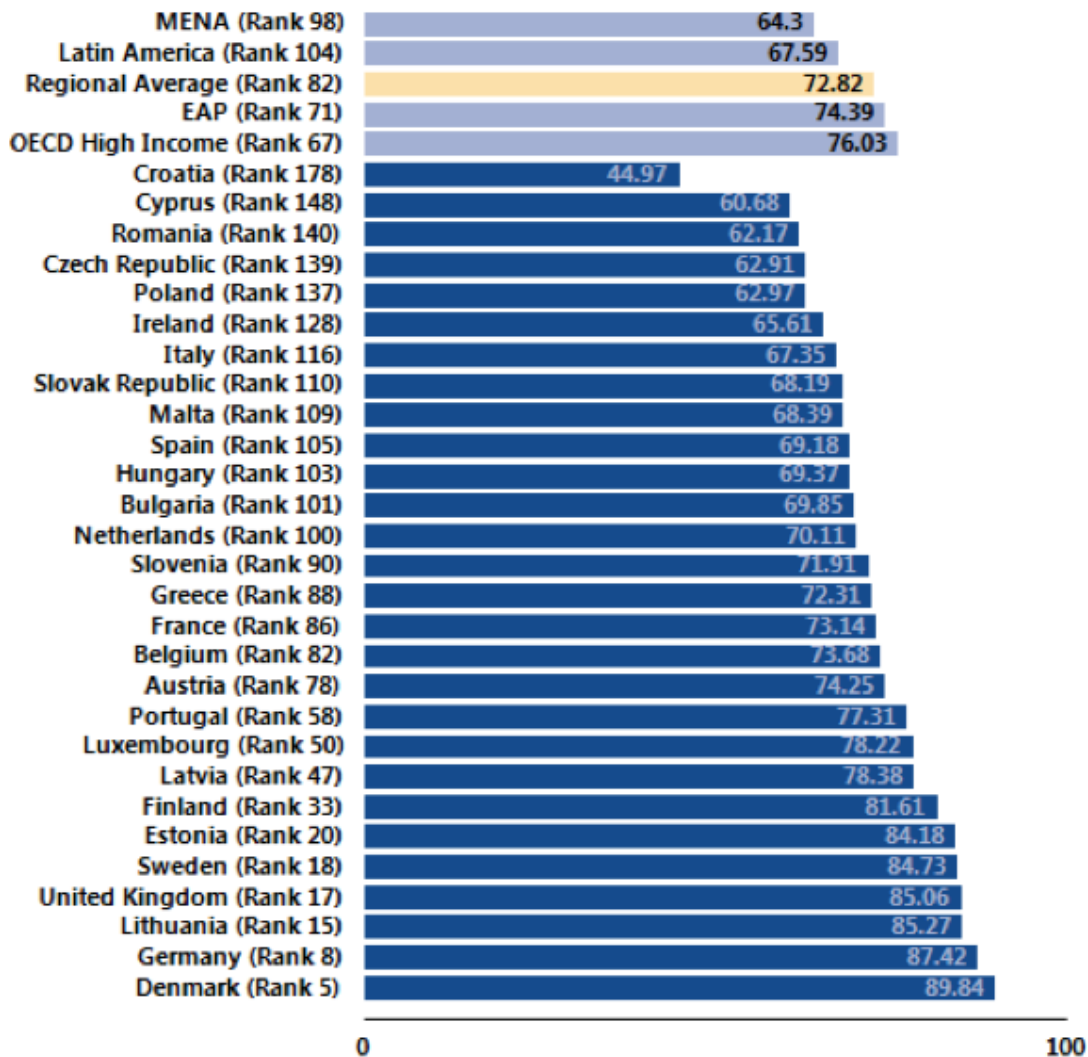
Doing Business Indicator	Bulgaria	Regional average	Regional best performer	Global Best Performer
Procedures (number)	16	16.1	9 (Cyprus; Georgia; Montenegro; Ukraine)	5 (Hong Kong SAR, China)
Time (days)	110	176.8	64 (Ukraine)	26 (Singapore)
Cost (per cent of warehouse value)	4.5	5.0 per cent	0.2 percent (Hungary)	0 percent (Qatar; Mongolia)

Source: Doing Business database

Bulgaria ranks 17th among 28 EU member states – ahead of Croatia, Romania, Poland, and Hungary, but behind Slovenia, Estonia, and Germany (figure 3.1). While the time to deal with construction permits (110 days) is lower than the EU average (174.4 days) the number of procedures and costs associated with them are considerably higher (Bulgaria: 16 procedures and costs equal to 4.5 per cent of warehouse value; EU average: 12.6 procedures and costs equal to 2.3 per cent of warehouse value).

²⁸ For example in France, the Spinetta Act of 1978, required broad-based insurance and warranty coverage.

Figure 3.1. Dealing with construction permits: Bulgaria compared to other EU member states



Source: *Doing Business* database

Indicators over time

No business reform impacting the Dealing with Construction Permits indicator has been registered in Bulgaria for the past 5 years.

Short-term reform recommendations:

Develop clear and actionable guidelines and checklists for building sector professionals and investors, and make these available to the public together with agency regulations and applicable legislation. Combine this reform with the possibility of interacting with a single building-permit official for a preliminary

project screening. In Bulgaria, as in many other economies, the building permitting and land development process is complex and falls under the jurisdiction and purview of several agencies, the so-called applicable law agencies.²⁹ Although generic information on these processes is generally available, it is scattered across multiple sources and websites. As a result, only highly experienced construction consultants or building permit specialists understand the entire process. Such knowledge should be easily available to all potential applicants.

In order to further increase transparency and enable developers to be effective “partners in compliance” with all applicable laws, agency regulations, decision-making criteria, complete application requirements and approval procedures should be put in plain language as to be fully transparent and actionable.

While individual applicable law agencies should provide information on their own requirements and processes, the responsibility for providing information on the entirety of the process should reside with the authority responsible for issuing building permits (e.g. Sofia Municipality). Applicable law agencies should be listed in the regulations, in the guidelines and checklists provided by the above-mentioned authorities, and on the municipality’s website. These lists should be promptly updated whenever anything changes.

Economies, such as Norway and Georgia, which successfully reformed in the area of construction permitting, combined an exhaustive publication of administrative requirements for construction-permit applications with the possibility of interacting with one building-permit official for a preliminary project screening. This initial advisory interaction can be informal and voluntary, so as not to create yet another mandatory procedure, but should be decisive to determine what specific laws and regulations are applicable to the project.³⁰

Consolidate application forms and streamline requirements for building-related permits. Building sector specialists interviewed in June 2015 highlighted how dealing with construction permits in Bulgaria entails a lot of redundant paperwork. An application for a building permit for a simple commercial building at the Municipality, for instance, requires the submission of 15 separate blueprints and design plans. Additional documentation is often requested as the application is being processed. As a result, applications often become

²⁹ Applicable law agencies are all those agencies that have a potential role in issuing prior approvals or clearances - e.g. planning, environment, road, utilities, etc. Because of this, this recommendation applies not only to the agencies implicitly mentioned by the Doing Business indicators, but also to other agencies that might be involved in the construction-permitting process, such as the Agency for Cultural Heritage Sites.

³⁰ World Bank Group, Investment Climate Department. 2013. *Good Practices for Construction Regulation and Enforcement Reform: Guidelines for Reformers*. Washington, DC: World Bank Group.

large files that are burdensome to examine carefully. In order to reduce the amount of red tape, and thus decrease the amount of time spent on purely administrative matters, Bulgarian authorities could consider consolidating construction-related requirements. Consolidation may include eliminating redundant requirements and/or introducing a single application form to facilitate the process

Provide training events and seminars with key stakeholder groups – e.g. engineers, architects, building companies and public officials – to inform construction sector practitioners on the novelties introduced by the Euro code and its national annexes.

The European Building Code and its national annexes introduce important novelties in terms of technical solutions and building standards that are not yet fully appreciated by all construction sector practitioners operating in Bulgaria. This results in uncertainty, disputes on building-code requirements, and delays in the building permitting process. In order to reduce the problem, key stakeholder groups – such as the professional chambers – could organize regular training events and seminars for their associates. Chambers should also consider whether the attendance of some of these training events should be mandatory for their associates in order to maintain their license. Another policy that could be beneficial to tackle the problem is to increase the collaboration between professional chambers and technical universities. Discussions held with private sector practitioners in June 2015 highlighted that currently, architecture and engineering university students in Bulgaria are often more familiar with building solutions applied in the 1960s than with those used today.

Consider charging lower fees for small projects presenting no risk to public health and safety. Dealing with construction permits in Bulgaria is a comparatively expensive endeavor. According to Doing Business 2015, the official costs associated with completing the procedures to legally build a simple 1,300-square meter commercial warehouse in Sofia amount to 4.5 per cent of the warehouse value. In Bucharest the same process costs 2.3 per cent of warehouse value; in Berlin and Vienna just 1.1 per cent. In order to reduce the burden on small entrepreneurs, Bulgarian authorities should assess the feasibility of introducing smaller fees for the final construction approval for simpler buildings that present no risk to public health and safety. Since the cost of providing services is not directly proportional to the area or cost of the building, larger projects with more substantial building fees could subsidize smaller ones.

Eliminate the requirement to obtain an official decision from the Director of the Regional Inspectorate of Environment and Forestry Protection on whether simpler projects require an Environmental Impact Assessment (EIA). The Law on Environment Protection (Appendix 1 and Appendix 2) clearly defines which investment projects require an EIA. Simple commercial buildings – such as the warehouse building for storing books and stationery considered by Doing Business – do not fall among the

investment projects listed in the above-mentioned law. Consequentially, an EIA is not obligatory.

At the moment, however, all building projects – regardless of their size or complexity – must notify the Regional Inspectorate for Environment and Forestry Protection about the planned construction. Once the relevant documents have been submitted to the Inspectorate, its director confirms officially whether the EIA is necessary or not. Once the first reform recommendation of this section been implemented, such requirement should be abolished for simpler categories of buildings.

Develop service delivery standards for the agencies involved in the building permitting process, as well as systems to track compliance to such standards. In Bulgaria many applicable law agencies do not have timeframes for reviewing building permit-related applications. When they do, such timeframes are very general or unrealistic and there are no serious consequences for non-compliance. Private sector professionals operating in the country report that often they have to wait for several weeks just to know whether the application they have submitted is complete and can be processed. This is particularly true for the Sofia Water Authority, which rarely takes less than a month to verify that an application is complete.

In order to reduce delays, all agencies involved in the building permitting process should agree to a set of service delivery standards. Delivery standards outline the specific delivery targets established by each agency, and are composed of a set of commitments that the agency promises to honor when delivering a service. In doing so, they describe what an applicant can expect to receive from the agency, together with the manner and timeframe in which the service will be delivered. In order to make delivery standards more effective, their implementation could be accompanied by the introduction of systems to track compliance, for example by monitoring the performance of the officials responsible for each process.

Medium-term reform recommendations:

Create a dispute resolution mechanism for compliance issues relating to building-code requirements. In Bulgaria, all disputes relating to building code requirements go to court regardless of their value or importance. The problem is particularly acute in Sofia, where judicial proceedings on construction-related matters are lengthy and drain resources away from the Municipality and businesses alike. Countries that have successfully tackled this problem in the past, such as Canada, have established specialized bodies with building code officials and private building practitioners to resolve the disputes that typically arise

from rejection of construction permits or stop-orders issued by inspectors.³¹ This is important to preserve the rights of applicants, and also provides a tool for dealing with conflicts, as well as ensuring that the backlog of requests pending at the municipality level remains as small as possible.

Clarify the roles and responsibilities of supervisory agents vis-à-vis municipalities and other stakeholders in the building permitting process. In Bulgaria, supervisory agents – called *nadzornik* – are legally mandated to collect the necessary documentation and blueprints, carry out technical reviews, and obtain the relevant permits on behalf of the investor from the Municipality.³² Once the project is officially approved, the *nadzornik* also supervise the construction activities, making sure that they are carried out in accordance with all rules and regulations. At the moment, however, the role played by the supervisory agents and their added value is highly contested. This is because the *nadzornik* are chosen and paid directly by the investor, and their responsibilities vis-à-vis the Municipality and investor are not very clear. Both public official and private sector practitioners interviewed during the World Bank Group mission in June 2015 lamented the *nadzornik*'s poor impartiality, highlighting how their reviews and supervision are often superficial and, in essence, duplicate the work already done by the architects. As a result, municipalities often end up carrying out additional reviews in order to guarantee public safety and avoid legal disputes. In order to reduce delays and eliminate the duplication of tasks between architects and *nadzornik*, Bulgarian authorities should clarify the roles and responsibilities of the *nadzornik*. In order to have a comprehensive view of the problem, discussions should involve architects, construction sector practitioners, public officials and the *nadzornik* themselves.

Establish a one-stop shop for all building-related permits and clearances. Bulgarian entrepreneurs must undergo 7 different procedures before they can obtain a building permit from the Municipality. The whole process takes 79 days altogether and involves separate interactions with the Municipality, the Regional Inspectorate for Environment and Water, the Electricity Provider, and the Water authorities.³³

³¹ World Bank Group, Investment Climate Department. 2013. *Good Practices for Construction Regulation and Enforcement Reform: Guidelines for Reformers*. Washington, DC: World Bank Group.

³² The use of supervision companies is mandatory only for certain categories of buildings.

³³ The scenario taken into consideration by the Doing Business case study is relatively simple. During the fact finding mission of June 2015, private and public sector officials observed that the number of administrative steps and agencies issuing clearances may grow considerably depending on the specific location (or complexity) of the construction project. The presence of a few trees on the plot where the building project is located, for example, may add weeks to the clearance process. Additional interactions and delays occur if the building is located in specific areas, for instance areas of archeological interest that are under the jurisdiction of the Agency for Cultural Heritage Sites.

In Dubai, the same process now takes just 2 procedures and 25 days. In the past, entrepreneurs operating in the Emirate were also required to clear their project designs with various agencies separately. Since 2012, however, all no objection requests are submitted through the Dubai Municipality Portal at the time of the building permit application.

A one-stop shop can centralize all building-related clearances in one location and make the technical approvals an in-house process at the Municipality. Besides easing the administrative burden on customers, a similar one-stop shop can also help all agencies involved to improve coordination of their approvals (e.g., zoning, water and sewage, environment, electricity, etc.). In designing its one-stop shop, Bulgaria could also consider the example provided by Hong Kong SAR, China – the best performing economy in the Dealing with Construction Permits indicator (see Box 1).

Box 1. Creating a single-service window for construction permits in Hong Kong SAR, China

The One-Stop Centre for Construction Permits (OSC) began operating in Hong Kong SAR, China in December 2008. The OSC reengineered and streamlined processes involving 6 government departments (the Buildings Department, Lands Department, Fire Services Department, Drainage Services Department, Highways Department and Water Supplies Department) and two private utilities (telephone and electricity).

One of the main achievements of the OSC was to combine 5 procedures into 1. At the pre-construction stage, property developers use a single application form to obtain the following approvals and consents:

- Building plans approval (Buildings Department);
- Technical audit of water supply connection works (Water Supplies Department);
- Road excavation work (Highways Department);
- Traffic police approval;
- Permission to begin building works (Buildings Department).

Procedures were streamlined for post-construction approvals as well. At that stage, the developer submits one application to the OSC for: (1) a technical audit from the Drainage Services Department; (2) water supply certificates from the Water Supplies Department; (3) an occupation permit from the Buildings Department; (4) a certificate of compliance from the Lands Department; (5) a certificate for fire service installations from the Fire Services Department; and (6) connection to electricity and telephone lines by the respective utility companies. This one-stop service eliminates the need for the developer to contact individual government departments and private utility companies for reporting completion of works, issuance of certificates and inspections.

Moreover, the OSC reviews the post-construction approval to determine which authorities need to conduct inspections, and coordinates among those authorities to conduct a single joint inspection. This has reduced the number of inspections and shortened total processing time. In all, the OSC merged 8 procedures and cut total processing time by 52 days, making Hong Kong SAR, China, the top reformer in the area of Dealing with Construction Permits for Doing Business 2012.

Computerize the building permitting process. The building permitting process in Bulgaria is entirely paper-based. Building companies and construction practitioners operating in the country need to carry around large amounts of paper in order to obtain the necessary clearances from the Municipality, applicable law agencies and utility providers (see second short-term reform recommendation above). In order to reduce processing times and align themselves with best practice economies in Europe, Bulgarian authorities should computerize the system so that building information can be submitted and stored in a manner that is easily accessible, and development requests can be cross-checked for ownership, compliance, permits and inspections.

In addition to streamlining the building permitting procedures into a one-stop shop (see previous reform recommendation), a further degree of efficiency would be attained by creating an e-based platform where building permit applicants can apply for all initial clearances simultaneously by submitting one online form along with the final drawings. This form could be accessed by the various applicable law agencies involved in the building permitting process, who could then review their own maps and approve the designs electronically.

Several countries already have such computerized systems in place. Developers in Austria, Denmark, Iceland, Norway and Portugal can complete their building permit applications online. In Singapore, the data management system, established in 2001, provides online submission of plans and easy access to the information needed for obtaining a building permit, which allows for efficient permit processing. Today, builders regularly receive updates on the status of their application either by e-mail or text messaging. As a result, the time for dealing with construction permits has been reduced by two-thirds. This reform saves time for builders and government officials alike.

Increase collaboration between Geodesic, Cartography and Cadaster Agency (GCCA) and Sofia Municipality to create robust links between multi-layered Cadaster and Geographic Information System (GIS); provide appropriate access to both systems for the private sector. GIS is an integrated system of computer hardware, software, and trained personnel capable of assembling, storing, manipulating, and displaying topographic, demographic, utility, facility, image and other resource data that is geographically referenced. To be fully functional, implementation of a robust GIS must be linked to the appropriate Master Plan. The accessible maps should contain all relevant zoning, infrastructure and construction information to allow designers to proceed with their plans without having to contact authorities for further details (Box 2).

The Sofia Municipality is currently creating its own GIS but faces important challenges in terms collaboration with other applicable law agencies. At the moment, applicable law agencies have no legal obligation to provide their data to the Municipality. As a result, they

often don't. In order to bridge the gap, Bulgarian authorities could reinforce collaboration and exchange of information between the Municipality and the GCCA, which is currently working on a multi-layered cadaster.

The multi-layered cadastral database, which is expected to be complete within 12-18 months, is collecting maps and other relevant geographic information from several stakeholders, who are mandated by law to participate in the project. The stakeholders include, among others: utility providers (providing maps with water, sewage and electricity networks that are fundamental in project design); the Ministry of Environment (who provides geographic information on protected areas, quarries, etc.); the Ministry of Agriculture (who provides information on agricultural lands, composition of soils, etc.); Telecommunication Companies (providing information on positioning of cables and other infrastructure); Property Registry; Road Agency; and municipalities. Once finalized, the database will contain much of the necessary information for the creation of a robust GIS.

If the Bulgarian authorities were able to introduce a robust and detailed GIS, applicants who produced their conceptual drawings electronically with a computer-aided design (CAD) system may be in a position to overlay these plans with the zoning, planning and utility requirements captured in the GIS. In certain circumstances (mainly low risk applications) this may be able to have the effect of pre-approving some elements before being checked by Sofia Municipality, applicable law agencies and utility companies in order to make savings in processing time.

Box 2. An example of the GIS in North Shore City Council (NSCC), Auckland New Zealand

Key to the success of the NSCC GIS program has been its commitment to distribute access to map data and associated council information to various stakeholders. The online 'GIS Viewer' initiative has been especially well-received. Anyone with access to a standard web browser can create their own maps from available data including color aerial images, boundary lines, water pipes, manholes, hydrants and even property values and zoning information. NSCC can have anywhere from 500 up to 10,000 maps being produced in a single day, typically from house hunters. Real estate agents, surveyors, designers, architects and lawyers are also high users.

Source: North Shore City Council.

Registering Property

Registered property rights are important to support investment, productivity and growth.³⁴ Research suggests that property owners with secure ownership are more likely to invest in private enterprises and transfer land to more efficient users. The ability to easily access authoritative information on land ownership also reduces the transaction cost in financial markets, making it easier to use property as collateral.³⁵ Land registries, together with cadasters that identify the location of a property, are institutions used around the world to map, prove and secure property rights. These institutions are part of the land information system of an economy. With land and buildings accounting for between half and three-quarters of the wealth in most economies, having an up-to-date land information system matters.³⁶ The benefits of land registration go beyond the private sector. For governments, having reliable, up-to-date information in cadasters and land registries is essential to correctly assess and collect tax revenues. With up-to-date land information, governments can map out the varying requirements of their cities and strategically plan the provision of services and infrastructure in the areas of each city where they are most needed.³⁷

Doing Business records the full sequence of procedures necessary for a business (the buyer) to purchase a property from another business (the seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans or, if necessary, sell the property to another business. Bulgaria – represented by Sofia – ranks 57 out of 189 economies in the ease of registering property and 14 out of 26 economies in the Eastern Europe and Central Asia region. The time needed to register property in Bulgaria is significantly shorter than the average time recorded in Eastern Europe and Central Asia, but the process requires a greater number of procedures (table 4.1).

³⁴ Claessens, Stijn and Luc Laeven, Financial Development, Property Rights, and Growth, *Journal of Finance*, 58 (6): 2401–36, 2003.

³⁵ Simon Johnson, John McMillan, and Christopher Woodruff, Property Rights and Finance, *The American Economic Review*, Volume 92, Issue 5, Pages 1335-1356, December 2002.

³⁶ World Bank. 1989. *World Development Report 1989*. New York: Oxford University Press.

³⁷ Property information held in cadasters and land registries is part of the land information available to governments. Land information also includes other geographic, environmental and socioeconomic data related to land that are useful for urban planning and development.

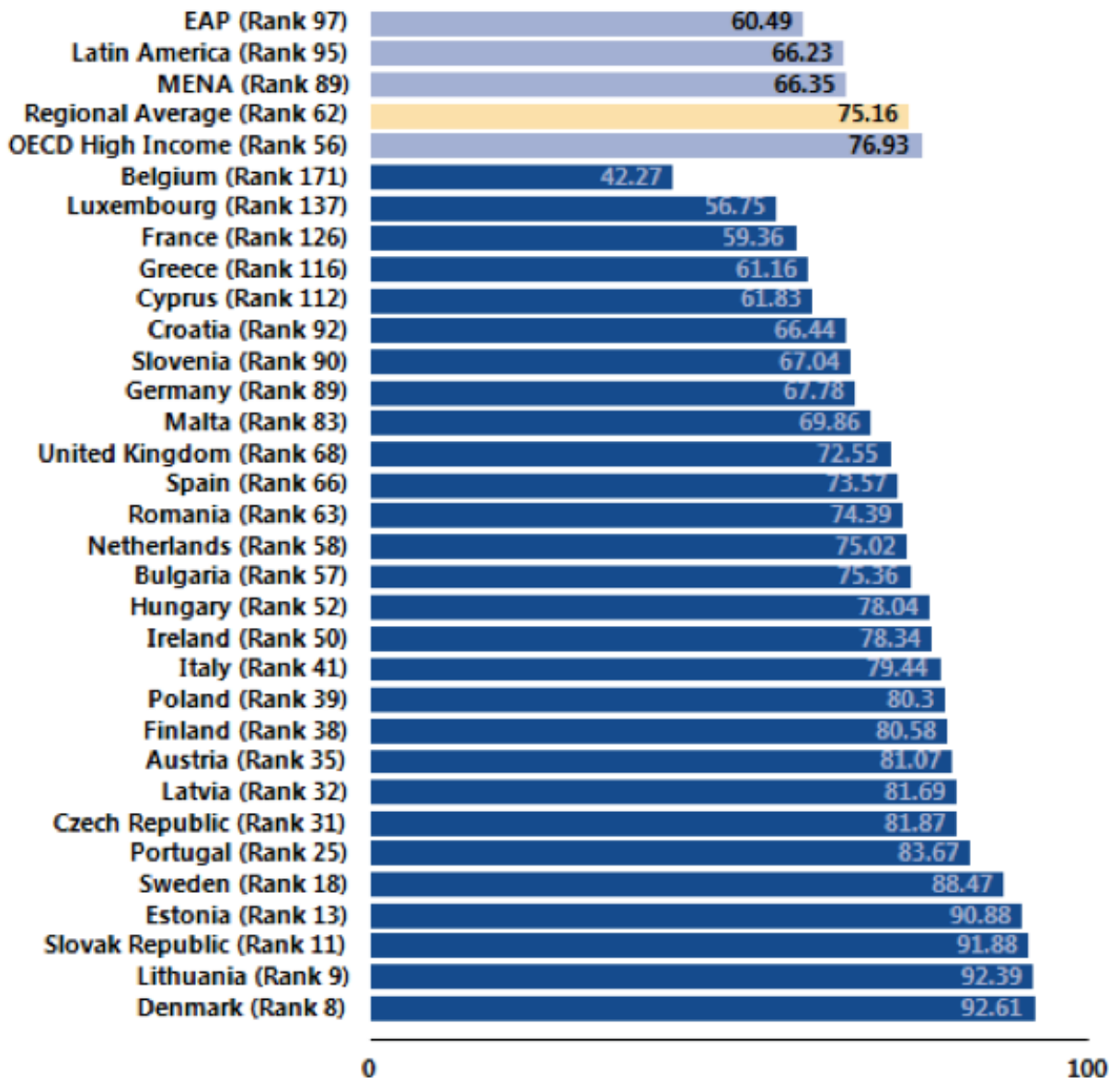
Table 4.1 Registering Property in Bulgaria and best performers

Doing Business Indicator	Bulgaria	Regional best performer	Regional Average	Global best performer
Procedures (number)	7	Georgia (1)	5.4	1 (Georgia; Norway; Sweden; Portugal)
Time (days)	10	Georgia (1)	23.1	1 (Georgia; New Zealand; Portugal)
Cost (per cent of property value)	2.9	Belarus (0.0)	2.7	0 (Belarus; Kiribati; Saudi Arabia; Slovak Republic)

Source: Doing Business database

Compared to the other 27 EU member economies, Bulgaria performs better than its neighbors – Romania and Greece – but there is room for improvement (figure 4.1).

Figure 4.1 Registering Property: Bulgaria compared to the other EU members



Source: Doing Business database

Reform efforts

In 2010, Bulgaria introduced an online procedure to obtain the certificate of good standing for firms. This led to a decrease of 3 days in the time needed for property registration. Fast track procedures were also introduced, allowing entrepreneurs to save additional time for an extra fee. In the same year, Bulgaria started unifying the data kept by the Cadaster Agency and the Registry Agency. An integrated web-based register was subsequently launched (www.icadastre.bg) providing online access to the ownership and cadaster status

of the properties. The project is not finished yet, as the cadastral data does not yet cover the entire country's territory.

Short-term reform recommendations:

Assess the feasibility of introducing lower fees for property registration. In Bulgaria, the (local) tax for acquisition of real estate varies from 0.1 per cent to 3 per cent of the purchase price (or of the tax evaluation of the real estate, in case the latter is higher). This tax is determined by each municipality on a yearly basis. In Sofia, it currently amounts to 2.5 per cent of property value, which must be added to the 0.1 per cent of property price charged as registration fee and to other payments due during the property registration process.³⁸

Over the past 10 years, 77 economies worldwide lowered transfer taxes and other government fees related to property registration – reducing the global average cost of registering property by 4.2 percentage points of property value.³⁹ In 2012, Ireland reduced its transfer tax from 6 per cent to 2 per cent of property value. In Central Europe, the Slovak Republic charges a flat registration fee of EUR 66 for paper-based transfers and EUR 33 for electronic transfers. Analysis and tax simulations should be conducted to assess if a reduction of the property transfer tax rate could be introduced, in a revenue-neutral or revenue-increasing way, by reducing the distortive effect of such tax in the property market.

Eliminate the requirement to obtain a certificate of good standing from the Registration Agency. Prior to executing the transfer of title before a notary, the seller and the buyer are required to obtain a certificate from the Registration Agency (i.e., the Commercial Registry). Such certificates show that each company is registered and existing, and that the person who signs on behalf of the company is authorized to do so. Since 2009, this certificate can be obtained online. However, in the vast majority of countries, the property deed is sufficient for parties to engage in a property transfer. At the moment, only 6 OECD countries – Denmark, Hungary, Poland, Korea, Italy and Japan – require parties to confirm their legal status. In other OECD countries, the check for the legal status of the parties is either performed by notaries online or not required at all because the property registration system is integrated with the company registration system.

³⁸ The list of fees and charges considered by Doing Business when benchmarking the cost of registering property in Bulgaria can be found at:

<http://www.doingbusiness.org/data/exploreeconomies/bulgaria/registering-property/>

³⁹ More information on: <http://www.doingbusiness.org/data/exploretopics/registering-property/good-practices>

Medium-term reform recommendations:

Increase cadastral coverage by strengthening *Geodesy, Cartography and Cadaster Agency (GCCA)*'s capacity and responsibilities. The utility of even the most reliable and transparent land administration system is undermined if it covers only a limited area of the economy. Where land registries and cadasters do not provide complete geographic coverage, companies and individuals cannot be sure whether areas not covered at the registry might be relevant to their interests. For maximum effectiveness, the registry and cadaster should make records of all registered private land readily available, and should also have records covering the entire economy. Around the world, only 27 per cent of economies have a registry with full coverage of private land – and only 34 per cent have a cadaster with complete coverage.⁴⁰

Currently, the Bulgarian Cadaster – maintained by the GCCA – covers only 18 per cent of the country's territory. While part of the uncovered territory is not yet mapped, another, more substantial part, has been mapped by the Ministry of Agriculture. A bill of law – currently being examined by the Council of Ministers – would allow all cadastral maps to fall under the responsibility of the Cadaster, thus increasing its territorial coverage to 88 per cent. Such reform presents an important step in the right direction and should be fully implemented. In order to achieve its desired effect, however, legislative changes are not enough. To achieve results in a reasonable amount of time, Bulgarian authorities should also strengthen the GCCA's capacity by introducing necessary upgrades in ICT infrastructure and human resources.

Explore the possibility of making the notary's signature of sale agreement optional. Bulgaria is among less than 40 countries that require a double verification of property transfers – one by a public notary and one by the Land Registry. Doing Business records that three out of four countries manage property registration without mandating the use of notaries or lawyers, including Portugal, Sweden and Denmark. Portugal successfully made notary involvement optional for companies wishing to transfer property: parties only need to sign the agreement in person at the registry. As a result, registering property in Lisbon only takes 1 day and 1 procedure. In order to implement this reform recommendation, several laws and regulations will need to be amended, including the Civil Code, the Property Registry Law, and the Notary Public and Notarial Activity Law. To ensure the success of this reform, amendments to the legislation should be accompanied by the introduction of standard sale-purchase contracts and the implementation of public awareness campaigns.

⁴⁰ Doing Business 2015.

Evaluate opportunities to streamline the property registration requirements, for example by improving the exchange of information between the agencies involved in the process. At the moment, registering property in Bulgaria requires interactions with several agencies and stakeholders. These agencies include: the Municipalities, who are responsible for issuing the tax valuation of the property; Local Tax Departments, who issue a certificate attesting that the seller has no tax arrears; the Commercial Agency, in charge of certifying the legal status of the companies involved in the transaction; the GCCA, in charge issuing the map of the property that has to be attached to the deed; Notaries, who execute the transfer deed; and the Property Registry, in charge of issuing certificates of non-encumbrance and registering the transfer of property after the execution of the deed.

Over the past 10 years, 46 economies worldwide streamlined requirements and linked (or improved) agencies' systems to simplify property registration. These measures reduced interactions between entrepreneurs and agencies – saving between 1 and 2 procedures on average – while maintaining security and controls.⁴¹ A number of European countries – including Denmark, Latvia, and Portugal – effectively reduced the number of procedures by connecting electronically different agencies' databases. When the Latvian land registry gained access to municipal tax information, for instance, entrepreneurs operating in Riga were freed from having to provide this information in paper format, thus saving them time and money associated with the paperwork. Bulgaria could follow suit.

Create an electronic platform offering the possibility of online property transfers. In order to facilitate and increase the security of the process of transferring land, a nationwide electronic system could enable purchasers to complete all necessary requirements for transferring property online. Such a platform would save resources for businesses and increase transparency.

At the moment, the core processes related to property registration in Bulgaria are still paper-based and manual. In spite of this, important reforms have been implemented over the past years, contributing to a considerable level of transparency of both Land Registry and Cadaster. Additional improvements are underway. The Cadaster Agency, for instance, is planning to introduce the possibility of obtaining property maps online. Applications submitted to the Land Registry are entered into an electronic database and their main details are publicly available online. In order to move to full e-filing, Bulgarian authorities would need to amend several laws, including the Cadaster and Property Registry Act of 2000, the Geodesy and Cartography Act of 2006, the Property Law, the Civil Procedure Code, the Law on Local Taxes and Fees, as well as internal Regulations on Entries for Filing of Property Registration. The EU “Good Governance” project could provide the resources needed to implement necessary ICT updates.

⁴¹ Ibid.

Countries with fully electronic systems progressively worked towards that goal over several years. As an example, in 2009 the Danish government began modernizing its land registry by digitizing and automating property registration. Processes had to be streamlined and reorganized. The centralized land registry initiated its computerization, and records were progressively digitized. Once digitization was complete, the land registry introduced electronic lodgment of property transfers. By 2011, property transfer applications were only accepted online and the information technology system started screening applications in a fast and efficient way. As a result, over 5 years the time to transfer a property was reduced from 42 days to 4 days. With online access to a single source of land registration data, citizens and businesses can transfer property on their own, with no need for a third party. They can also obtain information on any property. Additionally, to facilitate access to credit as well as to information, the Danish financial sector created a central hub allowing banks and the land registry to share land registration data.

New Zealand digitized its property records between 1997 and 2002 and subsequently introduced electronic registration. However, by 2005 only about half of property transactions were being submitted electronically. A final push was needed. In 2008, electronic registration was made mandatory by law. Registration can now be completed in just 2 steps, at a cost of 0.1 per cent of the property value.

Merge Land Registry and Cadaster into a single administrative agency. In the longer term, Bulgarian authorities could consider merging the Land Registry and Cadaster functions into a single administrative agency, which should be operationally independent, government supervised, and partially or fully fee-financed.

Getting Credit

Doing Business covers two aspects of the regulatory framework and infrastructure that affect the availability of credit: the depth of credit information and the strength of the legal rights of borrowers and lenders. The first aspect, measured by the depth of credit information index, includes the coverage, scope and accessibility of credit information available either through credit bureaus or registries. The second, measured by the strength of legal rights index, evaluates the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending.

Both sets of measures have recently been expanded to cover more good practices. The strength of legal rights index has been expanded from 10 points to 12. One of the new points is awarded for having an integrated secured transactions system. Modern secured transactions systems are aiming at ensuring that a prospective creditor can easily determine not only whether an asset has already been pledged as collateral but also whether there is some other type of right over that asset. Such rights might be established by legal instruments that are functional equivalents to security interests. In an integrated secured transactions system these instruments are regulated under the same law as traditional security interests, an approach that provides greater transparency and predictability. Points are also awarded for having a well-functioning collateral registry, defined by several characteristics. One of them is that the registry must cover all types of secured transaction, regardless of the type of debtor, creditor or assets. Another is that the registry must be a notice-based registry, a type of registry that has lower running costs than a document-based registry, as no underlying documents are required to be filed nor are reviewed by a registry clerk. Finally, the registry must offer modern features. For example, secured creditors (or their representatives) should be able to register, search, amend and cancel security interests online.

The depth of credit information index has been expanded from 6 points to 8. One of the new points is awarded to economies where credit information can be accessed through an online platform or through a system-to-system connection between financial institutions and the credit information system. Online access can improve data quality and security, increase efficiency and transparency and ensure a high standard of service for users – and thus might increase the number of reporting institutions that share credit information.

With the methodological improvements introduced by Doing Business 2015, Bulgaria scored overall 23rd on the Getting Credit indicator among the 189 countries measured by the report, and 6th out of 26 in Europe and Central Asia region.

A. Credit Information

A credit reporting system is an integral part of a well-functioning credit market. Credit reporting systems help satisfy lenders' need for accurate, credible information that reduces the risk of lending and the cost of loan losses by providing a reliable indication of whether an applicant will repay a loan. A lack of credit information makes checking borrowers' credit history an onerous and uncertain process. This raises transaction costs for banks and, ultimately, increases the cost of credit to borrowers. Loans are made based on personal connections, not necessarily the likelihood of repayment.

Research suggests that bank risk is lower, while profitability is higher, in countries where lenders share borrowers' information through credit bureaus and registries.⁴² Well-functioning credit reporting systems can help to reduce adverse selection and moral hazard, and contribute to both an expansion of credit and a reduction in lending costs by facilitating the adoption of lending technologies based on credit scoring models. The development of credit registries and bureaus is particularly important for smaller firms, given the more severe problems of information opacity and asymmetry in these cases.

In the Doing Business report, Getting Credit – Depth of Credit Information index, Bulgaria scores 5 out of 8 (8 = highest availability of credit information). Worldwide, 23 economies score 8 points out of 8 in this index (table 5.5). In the EU, Bulgaria fares better than Luxemburg, Malta, and Slovenia but worse than other 19 economies (figure 5.1).

Table 5.1 Credit information ranking and best performers

Doing Business Indicator	Bulgaria	Regional Average	Regional best performer	Best global performer
Depth of credit information index (0-8)	5	6	8 (Armenia; Georgia; Lithuania)	8 (26 economies)
Private credit bureau coverage (per cent of adults)	0	33.7 per cent	100 per cent (Serbia; Croatia)	100 per cent (26 countries)
Public registry coverage (per cent of adults)	62.9	19.3 per cent	76.8 per cent (Latvia)	100 per cent (Portugal)

Source: Doing Business database

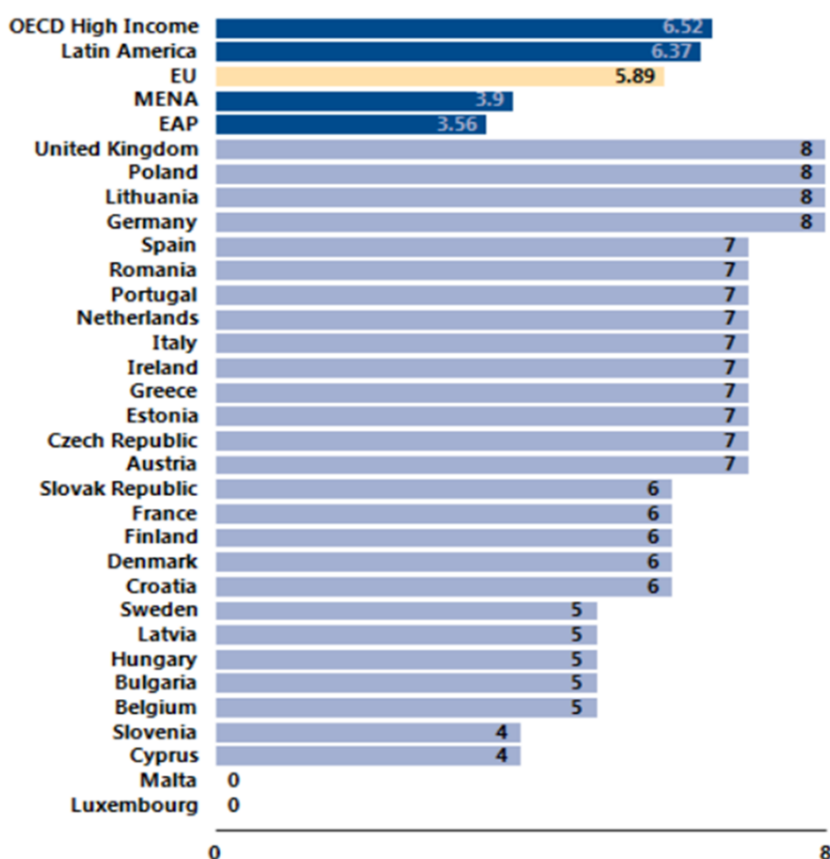
⁴² Joel Houston, Chen Lin, Ping Lin, and Yue Ma, 2010. "Creditor rights, information sharing, and bank risk taking," *Journal of Financial Economics*, Volume 96, Issue 3, Pages 485–512, June.

Table 5.3 Depth of credit information index

Depth of credit information index (0–8)	Private credit bureau	Public credit registry	Bulgaria's score:
Are data on both firms and individuals distributed?	No	Yes	1
Are both positive and negative credit data distributed?	No	Yes	1
Are data from retailers or utility companies – in addition to data from banks and financial institutions – distributed?	No	No	0
Are at least 2 years of historical data distributed? (Credit bureaus and registries that distribute more than 10 years of negative data or erase data on defaults as soon as they are repaid obtain a score of 0 for this component.)	No	No	0
Are data on loan amounts below 1 per cent of income per capita distributed?	No	Yes	1
By law, do borrowers have the right to access their data in the credit bureau or credit registry? (Credit bureaus and registries that charge more than 1 per cent of income per capita for borrowers to inspect their data obtain a score of 0 for this component.)	No	Yes	1
Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)?	No	Yes	1
Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers?	No	No	0
Score (Number of "Yes" answers)			5

Note: Prior to Doing Business 2015, the depth of credit information index covered only the first 6 features listed above. An economy receives a score of 1 if there is a "yes" to either bureau or registry. If the credit bureau or registry is not operational, or covers less than 5 per cent of the adult population, the total score on the depth of credit information index is 0.

Figure 5.1 Depth of credit information index: Bulgaria compared to other EU economies



Note: Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. If the credit bureau or registry is not operational, or covers less than 5 per cent of the adult population, the total score on the depth of credit information index is 0. *Source:* Doing Business database.

Indicators over time

The Central Credit Registry (CCR), administered by the Central Bank of Bulgaria, was created in July 1998 and started its operations in 2000. On 1 July 2004, the Central Bank of Bulgaria lifted the minimum requirement for monitored loans. As a result, the number of borrowers has increased nine fold. In the same year, a Credit Bureau – Experian – was created. The bureau started its operations in March 2005. On November 2008, the CCR further extended its coverage with additional financial institutions and data fields. New participants to the CCR, such as payment institutions and electronic money companies granting loans, were included thanks to the amendments to the Law on Credit Institutions and related ordinances that came into effect in 2012.

Since April 2011, however, Experian stopped collecting and distributing historical credit data from banks and telecommunication companies, as it was no longer profitable to stay in the market.

Short-term reform recommendations:

Expand the sources of information to include retailers and utility companies. The Bulgarian Central Credit Registry's sources of data currently include public and private commercial banks as well as finance corporations and leasing companies. In addition to the data provided by financial institutions, such as the ones described above, more advanced credit reporting systems also collect credit information from retailers or utility companies (electricity, water, and mobile phone providers) and include such data in their credit reports. This is the case in 58 of 189 economies covered by Doing Business, including Denmark, Germany, and the United Kingdom. Doing so is an effective way of expanding coverage by credit bureaus.

Collecting and distributing information on the payment of electricity and phone bills, for example, can help establish good credit histories for people without previous bank loans and credit cards. A study in Italy found that more than 83% of water customers, who lacked a credit history before the inclusion of repayment information from the utility provider, were able to have a positive history after the inclusion, solely by paying their utility bills.⁴³

Utility companies may also benefit. For example, in August 2006, the United States-based DTE Energy, an electricity and natural gas company, began full reporting of customer payment data to credit bureaus. DTE customers with no prior credit history – 8.1% of the total – gained either a credit file or a credit score. And customers began to make payments to DTE a priority. Within 6 months DTE had 80,000 fewer accounts in arrears.⁴⁴

Expanding the sources of information to incorporate non-regulated financial institutions, however, can be challenging. For example, it may be necessary to amend the existing legal and regulatory framework concerning consumer and data protection so that retailers and utility companies may share consumer data with credit reporting service providers. Measures should also be taken to ensure the quality of data submitted by retailers and utility providers. Such companies may use different the consumer identification systems: both system and human errors are possible when data are transmitted for the first time.

⁴³ Preliminary findings of ongoing internal study at CRIF SpA, Italy.

⁴⁴ World Bank Conference. Financial Infrastructure Week. Brazil, March 15-17, 2010.

Medium-term reform recommendations:

Introduce credit scores. Another important tool in expanding access to finance is credit scoring, a statistical method of evaluating the probability that a prospective borrower will fulfill the financial obligations associated with a loan. Credit scores, based on credit bureau or credit registry data, pool information across many creditors as well as some public information sources. They therefore include characteristics otherwise unavailable to any individual creditor, such as total exposure, number of outstanding loans and previous defaults within the system. Credit scoring models typically incorporate historical data such as defaults, positive payment behavior and previous inquiries. To sharpen the predictive value of credit scores, credit bureaus and registries are also increasingly collecting data from a wider range of sources (such as bankruptcies and court judgments). As a result, credit scores generally have a higher predictive value than assessments derived from credit histories alone.⁴⁵

Credit scores may improve market efficiency and provide borrowers with more opportunities to obtain credit. The availability of credit scores allows lenders that would otherwise not be capable of analyzing the raw credit data to extend credit to underserved markets at lower cost. This value added product is most widely available in Latin America and the Caribbean and the OECD high-income group, offered in 80 per cent of economies with a credit bureau or registry covering at least 5 per cent of the adult population – compared with 40 per cent in Europe and Central Asia, 38 per cent in the Middle East and North Africa, 25 per cent in East Asia and the Pacific and 24 per cent in Sub-Saharan Africa.

Distribute at least 2 years of historical data. When credit reporting agencies do not preserve historical information or erase negative data upon repayment, assessing credit risks becomes more challenging for lenders. In Bulgaria historical data are distributed for 5 years only when loans are active. As a result, once the borrower finishes repaying a loan, the credit report does not show the historical behavior of this loan and no positive historical credit data is distributed to the reporting entities/participants in the Central Credit Register.⁴⁶

Sharing information on reliable repayment allows customers to establish a positive credit history and improves lenders' ability to distinguish good borrowers from bad ones. In Italy, the private bureau distributes information on active loans plus 3 years of historical data

⁴⁵ World Bank 2011a.

⁴⁶ According to art. 19, paragraph 2, of BNB Ordinance 22 on the Central Credit Register, the information on customer credit indebtedness that the CCR distributes to the reporting entities includes: a) data on the current status of loans (as of the last reporting month: both regular and overdue) and b) data on overdue active and repaid loans over a 5-year historical period (the historical data is only on loan arrears).

after the last update of closing date of the loan. Information on defaults is distributed for 24 months (if they are repaid) or 3 years (if not repaid and the loan has been closed). If arrears are of less than 2 months/2 consecutive late payments, the information is distributed for 12 months after repayment. If arrears are of a longer duration, the information is distributed for 24 months after repayment on the condition that during the last 12/24 months no other late payments occur.

B. Legal Rights of Creditors and Borrowers in Secured Transactions

This section focuses on secured transactions and creditors' rights. In many developing countries, small and medium enterprises do not have access to land to use as collateral. However, they do have moveable assets – such as machinery, inventory, accounts receivable, and equipment. The legal and institutional framework plays an important role in facilitating the use of such movable assets as collateral. Having to give up the possession of the asset pledged to a creditor would disable the debtor from using such asset, which could hamper the business's productivity and ability to operate. It is therefore important to develop a legal system that allows businesses to use their moveable assets as collateral to secure loans, without having to give up possession of those assets. This in turn may increase firms' likelihood of accessing credit and improve the terms of the credit.

Research suggests that an improved legal framework for collateral could contribute to:

- **Increasing the level of credit availability:** In countries where security interests over collateral are enforceable against third-parties based on a predictable priority system in cases of loan default, credit to the private sector as a percentage of GDP averages 60 per cent, compared with only 30-32 per cent on average for countries without these creditor protections.⁴⁷
- **Decreasing the cost of credit:** In industrial countries, borrowers with collateral get 9 times the level of credit given their cash flow compared to borrowers without collateral. They also benefit from longer repayment periods (11 times longer) and significantly lower interest rates (50 per cent lower).⁴⁸
- **Increased access to finance:** Research found that in countries with registries for movable collaterals, the number of firms with access to bank finance increased on average by 8 per cent, and access to bank loans on average by 7 per cent. These countries also showed lower interest rates and extension in loan maturity. The

⁴⁷ Investment Climate Advisory Services, *Secured Transactions Systems and Collateral Registries*, World Bank Group, January 2010.

⁴⁸ Ibid.

increase was even stronger for small firms, which often find it more difficult than larger firms to access credit, due to lack of fixed assets to be used as collateral.⁴⁹

In the Doing Business report, Getting Credit – Legal Rights indicator, Bulgaria scores 9 out of 12 (12 = highest score for strongest protections) on the strength of legal right index. Another economy in Southeast Europe, Montenegro, is one of the 3 economies around the world that score 12 out of 12 in this index (table 5.5). In the EU, only Romania and Hungary score better than Bulgaria (figure 5.2).

Table 5.5 Legal Rights of Creditors and Borrowers in Secured Transactions ranking and best performers

Doing Business Indicator	Bulgaria	Regional Average	Regional best performer	Best global performer
Strength of Legal Rights Index (0-12)	9	6	12 (Montenegro)	12 (Colombia; New Zealand; Montenegro)

Table 5.6 Legal Rights of Creditors and Borrowers in Secured Transactions score

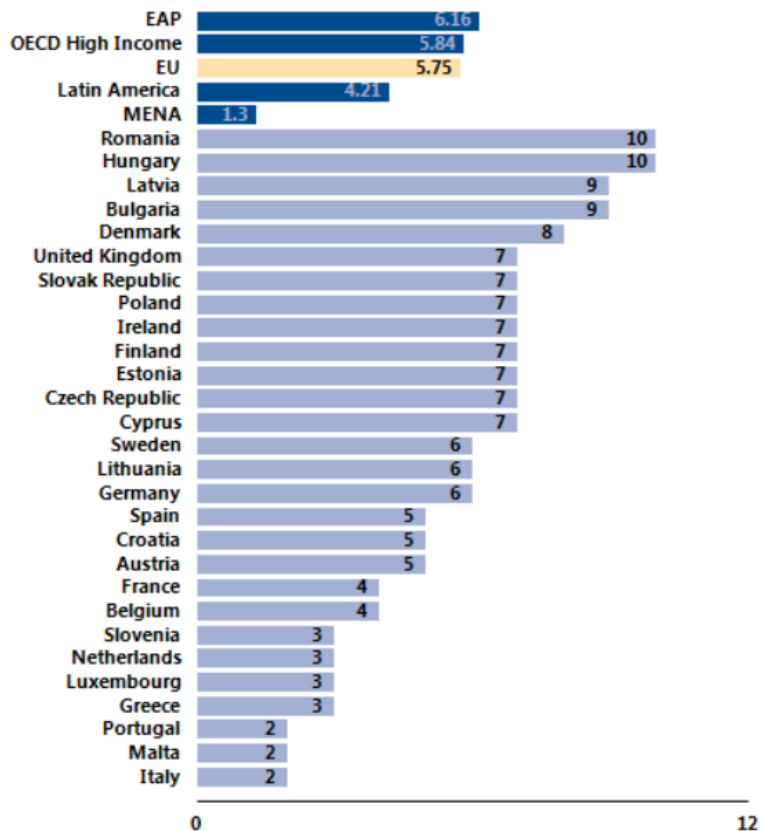
Strength of legal rights index (0-12)	Bulgaria's score
Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?	No
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	Yes
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	Yes
May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets?	Yes
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	Yes
Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?	Yes
Does a notice-based collateral registry exist in which all functional equivalents can be registered?	No

⁴⁹ Love, Inessa, María Soledad Martínez Pería and Sandeep Singh, 2013. "Collateral Registries for Movable Assets. Does Their Introduction Spur Firms' Access to Bank Finance? Policy Research Working Paper n. 6477, The World Bank, June

Strength of legal rights index (0-12)	Bulgaria's score
Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?	No
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	Yes
Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?	Yes
Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it?	Yes
Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt?	Yes
Score (Number of "Yes" answers)	9

Source: Doing Business database

Figure 5.1 Legal Rights of Creditors and Borrowers: Bulgaria compared to other EU economies



Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.

Source: Doing Business database

Indicators over time

No business reform impacting the Getting Credit – Legal Rights indicator has been registered in Bulgaria for the past 5 years.

Medium-reform recommendations:

Create an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of 4 functional equivalents to security interests in movable assets: fiduciary transfer of title; financial leases; assignment or transfer of receivables; and sales with retention of title. Such unified legal framework may consist either of one law covering all types of security interest, including functional equivalents (ideal scenario). Alternatively, it may encompass amendments to relevant laws by linking them through the same requirement of registration of all type security interests (including functional equivalents) in a central, geographically unified, collateral registry which would be noticed-based (no underlying security documents need to be provided for

registration) and accessible online for registration, searches and modifications by interested parties.

Create a notice-based collateral registry in which all functional equivalents can be registered. While traditional registries usually require a copy of the loan agreement or other documents, notice-based registries require no documentation other than a simple generic financing statement online form that records the existence of a security interest, providing the names of the creditor and the debtor as well as a general description of the collateral asset and the obligation secured. This avoids the need for a specialist to review lengthy documents, which can be costly and time-consuming. It also improves the quality of registration by transferring the responsibility to the registrant: with less documentation, the potential for errors is minimized. Notice-based registration has also been successfully adopted for other registration systems, such as patent and trademark registries.

Create a modern collateral registry in which registrations, amendments, renewals, cancellations and searches can be performed online by any interested third party. Online systems allow users to perform searches and register security interests from anywhere and at any time. Unlike paper-based systems, there is no need for users to appear before the registrar and wait their turn to enter information in the registry index. Online registration also transfers the burden of preventing errors to the interested party

Protecting Minority Investors

Corporate governance matters in all types of economies. Its ability to build trust and raise the attractiveness of firms to potential investors, whether domestic or foreign, is crucial in both established and developing economies. In established economies, ill-conceived corporate regulations can hamper the growth of the private sector. In developing economies, confidence in institutions is sorely needed to encourage the creation of a strong flow of flourishing corporations.

Corporate governance is first and foremost an act of balancing. The immediate interests of 4 parties are at play: company managers, company directors, shareholders and public authorities. In an ideal setting, the seemingly contrary interests of 1 party become beneficial in the long run to that of another. For instance, empowering shareholders by granting them more control over major transactions and/or transactions with a potentially harmful conflict of interest reduces the risk on their investment and may allow managers and company directors to more easily raise the capital needed to grow, innovate, diversify and compete on the market.

Without investor protections, equity markets fail to develop and banks become the only source of finance. Economies that have dynamic capital markets tend to effectively protect investors. In these economies investors receive financial information they can trust, they participate in major decisions of the company, and directors are accountable for their managerial decisions. If the laws do not provide such protections, investors may be reluctant to invest, unless they become controlling shareholders.

This indicator has different subsets of indicators. It measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain through one set of indicators⁵⁰ and the strength of shareholders' rights in corporate governance⁵¹ through another set of indicators.⁵²

⁵⁰ The company that is measured by Doing Business 'Protecting minority investors' indicators is a publicly traded corporation on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that the company is a large private corporation with multiple shareholders.

⁵¹ Doing Business 2015 measures corporate governance for listed companies and privately held joint stock companies. There will be change in the methodology of Doing Business 2016 to measure corporate governance for listed companies and limited liability companies. When the Doing Business report is prepared, not all questions are asked for both types of companies.

⁵² The strength of shareholders' rights index measures corporate governance in listed companies and limited liability companies. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that the company is a large private corporation with multiple shareholders.

The minority shareholder protections against directors' misuse of corporate assets for personal gain are important because gaps in legislation may allow company owners and directors to enter into transactions that are lawful and involve no fraud or deceit, but that nevertheless are unfair to minority shareholders. The existence of disclosure, director liability and shareholder suit provisions that prevent such unfair transactions is of concern both to foreign and domestic shareholders, and would help companies in Bulgaria to raise capital.

Protecting Minority Investors also measures the strength of shareholders' rights in corporate governance through another set of indicators.⁵³ Sound corporate rules can reduce the cost of equity by mitigating the agency divide between minority shareholders and managers in relation to diverging interests in the allocation of company resources. The "protecting minority investors" overall index is computed by averaging two indices related to protecting minority investors: extent of conflict of interest regulation and the extent of shareholder governance. Each of these indices is comprised of an average of three more relevant sub-indices (table 6.1). On an index range of 0-10, Bulgaria scores 6.8, ranking 14 out of 189 worldwide and 3 out of 26 economies in the Europe and Central Asia region.

Table 6.1: Protecting minority investors in Bulgaria and best performers

Doing Business Indicator	Bulgaria	Regional average	Region's best performer	Global best performer
Minority Investor Protection (0-10)	6.8	5.9	7.3 (Albania)	8.2 (New Zealand)
Conflict of Interest Regulation (0-10)	6.3	6	7.3 (Albania; Georgia)	9.3 (New Zealand; Singapore)

⁵³ The strength of shareholders' rights index measures corporate governance in listed companies and limited liability companies. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that the company is a large private corporation with multiple shareholders.

Disclosure Index (0-10)	10	6.4	10 (Bulgaria)	10 (15 economies)
Director Liability Index (0-10)	2	4.8	8 (Albania; FYR; Macedonia; Montenegro)	10 (Cambodia)
Shareholder Suits Index (0-10)	7	6.7	8 (9 economies)	10 (Mozambique)
Extent of Shareholder Governance (0-10)	7.3	5.9	7.3 (Bulgaria)	7.8 (France; India)
Shareholder Rights Index ⁵⁴ (0-10.5)	7.5	7.8	10.5 (Armenia; Romania)	10.5 (8 economies)
Strength of Governance Structure (0-10.5) ⁵⁵	6	4.4	8 (Serbia)	8 (Serbia; France)
Corporate Transparency Index (0-9) ⁵⁶	8.5	5.4	8.5 (Bulgaria; Kyrgyz Republic)	8.5 (4 economies)

Bulgaria ranks 14th globally on the Protecting Minority Investors indicator as measured by Doing Business. Bulgaria scores high on all sub-indicators, with the exception of the Director Liability sub-index where the economy scores only 2 out of 10 possible points (note: only 1 economy scores 10 and it is Cambodia). The regional leaders are Slovenia with 9 points, while Albania, Macedonia and Montenegro have a score of 8 on this indicator. 11 other economies have a score of 9 and they include Canada, Israel, Kuwait, Malaysia New Zealand, Rwanda, Singapore, Trinidad and Tobago, UAE and USA. 15 economies scored 10 on the **disclosure index**.

The reason behind this lagging performance is that Bulgarian legislation (the Commercial Law, the Public Offering of Securities Act, the Criminal Code, etc.) provides for a liberal

⁵⁴ Score (0-10.5) might change in Doing Business 2016 + questions included might change

⁵⁵ Score (0-10.5) might change in Doing Business 2016 + questions included might change

⁵⁶ Score (0-10.5) might change in Doing Business 2016 + questions included might change

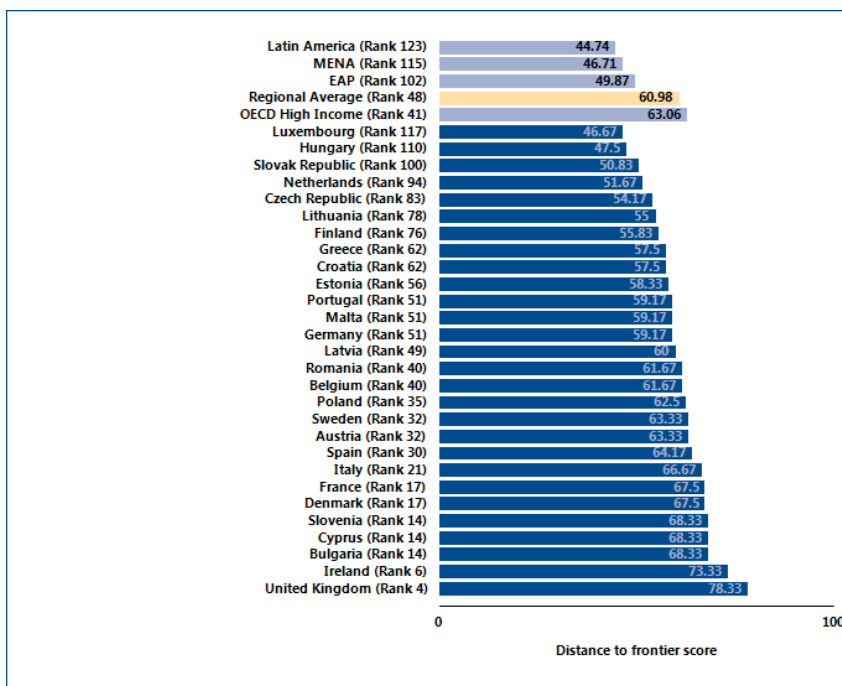
regime for the liability of company directors compared to other economies, and particularly compared to international best practices in corporate governance.

For example, in Bulgaria, the legal framework does not allow the interested director to be held liable by shareholders for damages caused to the company as a result of a transaction approved by the general meeting of shareholders. The same principle applies to members of the board of directors: shareholders cannot hold them liable for damages caused to the company by transactions the shareholders approved. In addition, the concept of “piercing the corporate veil” has a very limited application – i.e. only in cases of related-party transactions to detriment inflicted on the company willfully or by gross negligence, through acts or omissions, by any member of the management bodies and supervisory bodies, or by any managerial agent of the company.

Another characteristic of the Bulgarian legislation is that it does not allow for the court to simultaneously apply fines and imprisonment against interested directors for the same transaction (or alleged criminal act). Imprisonment is strictly a Criminal Law sanction, subject to a separate criminal trial, and cannot be a part of civil/commercial litigation based on commercial transactions disputes. In addition, the court is not allowed to void related-party transactions upon a successful claim by shareholders, apart from in exceptional cases of fraud or bad faith. Such a corporate regime, favorable to directors, hinders the corporate governance framework in Bulgaria, and also facilitates corruption and misuse of the corporate vehicle by interested directors.

In sum, the director liability in Bulgaria is very limited, except in cases where interested directors are found guilty in a court of law, and have to pay damages to shareholders.

Figure 6.1 – Protecting Minority Shareholders: Bulgaria compared to other EU member states



Source: Doing Business

Indicators over time

No business reform impacting the Protecting Minority Shareholders indicator has been registered in Bulgaria for the past 5 years.

Short-term reform recommendation:

Provide shareholders with rights to hold the interested director and directors liable for damages resulting from a related-party transaction. Currently, minority shareholders have to prove the interested director and directors' gross negligence in a court of law. This demanding standard requires shareholders to prove – in addition to material damages – willful misconduct, an intent to cause harm, or knowledge that one's conduct would be prejudicial. It should be complemented so that shareholders can hold the interested director and directors liable for unfair or prejudicial related-party transactions solely because of the presence of a conflict of interest, as long as the transaction at issue has caused damages. In this case, the law would require minority shareholders only to prove material damages and not the intention to cause damages, thus increasing the likelihood of recovery and consequently the level of protection.

In addition, in the case of a related-party transaction that is unfair, oppressive or prejudicial to minority shareholders, or entails a conflict of interest (i.e. not only in cases of fraud or bad faith), the law could offer the possibility of rescission of the transaction, and require the interested director to repay profits made from the related-party transaction.

More than 30 economies have implemented rules which hold both the interested director and the board of directors liable when the transaction is unfair or prejudicial to other shareholders, even if the transaction is not fraudulent. 45 economies hold only the board of directors liable in such cases. 57 economies hold interested directors liable when there is a conflict of interest.

Economies as diverse as, Macedonia, FYR, Malta, Montenegro, Hong Kong SAR, Hungary, Japan, Singapore, United States and New Zealand hold both interested directors and the board of directors liable for the damage caused by the related-party transaction if the company's affairs are being, or have been, conducted in a manner which is unfairly prejudicial or oppressive to the interests of its shareholders.

Medium-term reform recommendation:

Allow the plaintiff shareholders (minority shareholders) and/or their representatives⁵⁷ to directly question directors (defendants or witnesses) during trial. Currently Bulgaria scores 0 out of 2 on the Shareholders Suits index. This index is based on the question of whether or not the plaintiff can directly question the defendant and witnesses during trial. In Bulgaria, this is not possible under the litigation rules of the Civil Procedure Code. Due consideration should be given to the issue that allowing the plaintiff or their lawyer to directly question defendants and witnesses during a civil trial would most probably be considered a major change in the way a trial is conducted in Bulgaria. Such reform would probably be classified as a long term one, as it might need time to be implemented and adopted in practice.

⁵⁷ Lawyers with power of attorney to represent shareholders

Paying Taxes

Efficient tax administration can help encourage businesses to become formally registered and the economy to grow – thus expanding the tax base, decreasing evasion and increasing tax revenues. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. In contrast, economies with well-designed tax regimes are able to help the creation and growth of businesses and, ultimately, the growth of overall investment and employment.⁵⁸

The Doing Business “Paying taxes” indicator records the taxes and mandatory contributions that a medium-size company must pay in a given year, as well as the time it takes to meet the tax obligations of the 3 main taxes: corporate income tax, VAT or sales tax, and labor taxes and mandatory contributions. Bulgaria ranks 89 globally out of 189 economies on the ease of paying taxes, and is 18 out of 26 in Europe and Central Asia. Although the number of payments and total tax rate are well below the regional average, the number of hours spent to prepare, file returns and pay taxes is almost double (table 7.1).

Table 7.1 Paying Taxes in Bulgaria and best performers

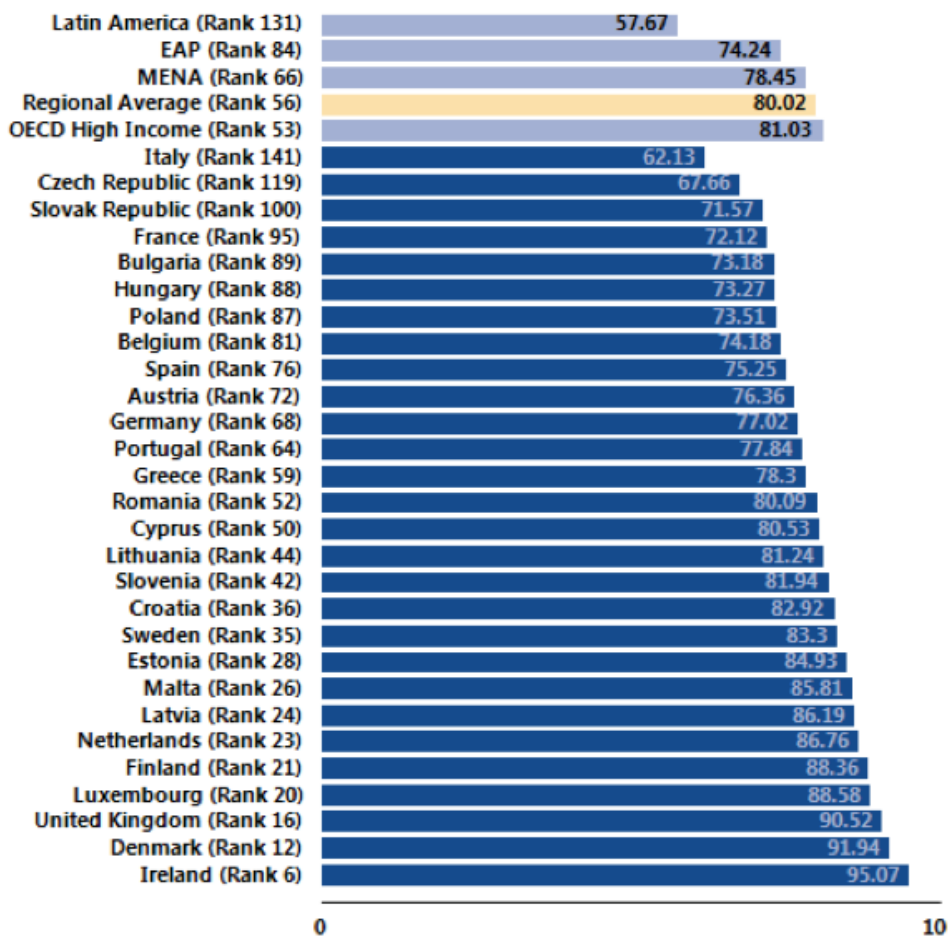
Doing Business Indicator	Bulgaria	Regional average	Regional best performer	Global best performer
Payments (number per year)	13	20.5	5 (Georgia; Ukraine)	2 (Hong Kong SAR; Saudi Arabia)
Time (hours per year)	454	234.3	52 (San Marino)	55 (Luxembourg)
Total tax rate (percentage of commercial profit)	27 per cent	34.9 per cent	N/A	N/A

Source: Doing Business database

Paying taxes in Bulgaria is a lengthy process. In the rest of the EU, paying taxes requires an average of 11.2 payments and 189 hours each year; in Bulgaria it requires 13 payments and as much as 454 hours, most of which are spent on filing social security contributions. As a result, although the total tax rate is relatively low – only Denmark, Ireland, Cyprus, Luxemburg, and Croatia register lower values – Bulgaria ranks 23 out of 28 EU economies on this indicator. Only Italy, Czech Republic, Slovak Republic, and France perform worse (figure 7.1).

⁵⁸ Bird, Richard. 2010. “Smart Tax Administration.” *Economic Premise* (World Bank) 36: 1–5.

Figure 7.1. Paying Taxes: Bulgaria compared to other EU member states.



Source: Doing Business database

Indicators over time

In 2007, Bulgaria made paying taxes easier and less costly for companies by encouraging electronic filing and payment, and by reducing the corporate income tax rate and employers' social security contribution rate. The following year, authorities in Sofia further improved the ease of paying taxes by introducing new corporate income and value added tax laws, abolishing the requirement for an additional annual value added tax return, and reducing the employer share of social security contributions. Starting from January 2009, the country reduced employer contribution rates for social security: the reform was captured by the 2011 Doing Business report. No major reform in this area has been registered since.

Short-term reform recommendations:

Continue providing tax outreach – education and training – to small and medium enterprises to ensure compliance, and carry out communications campaigns to

further increase the use of electronic filing. Often, the biggest obstacle in paying taxes for small businesses is the lack of basic accounting skills. The government can fill this gap by providing capacity building and training for small businesses. The benefits should be mutual: if well-trained entrepreneurs are able to prepare and file tax returns and pay taxes more efficiently, the government can ensure better compliance with tax regulation. Tax education is particularly important following significant reforms of the tax system (that is, the improvements of electronic filing and payment systems, and required software; and increased rates of some taxes/contributions).

Simplify compliance rules for paying and withholding social security contributions.

In Bulgaria, taxpayers need 256 hours per year to prepare, file and remit social security contributions. Although no returns are required per se, every month employers are obliged to file statutory reporting forms for the amount of the contributions – both the employer’s and employee’s portions – of each employee, plus one summary form for all employees. In order to reduce the burden on entrepreneurs, Bulgarian authorities should consider measures aimed at simplifying the administrative requirements on this area of tax regulation.

Trading across Borders

In recent years, the operating environment of the international trade community has significantly changed due to increased trade volumes and complexity. These changes highlight how inefficient border procedures may have a negative impact on governments, businesses and, ultimately, on the economy as a whole. Governments have to face problems such as smuggling and fraud, which have a negative impact on public finances. Entrepreneurs pay the price of slow and unpredictable goods delivery and cumbersome border procedures, often losing business opportunities. Directly incurred costs, such as those relating to supplying the relevant authorities with information and documents, and indirectly occurred costs, such as those caused by procedural delays, may in some cases reach as much as 15% of the value of the traded goods.⁵⁹

Customs performance, other trade-related technical control regulations, the quality of infrastructure for trade, and the existence of trade barriers all impact the ease of trading among countries. Bulgaria has been a member of the EU since January 2007. As such, it applies the same EU tariffs to goods imported from the rest of the world and has no tariffs on goods from other member countries. The EU customs union is highly sophisticated: Bulgaria already applies a wide set of common rules to imports and exports, and has completely removed all controls towards other EU members. As such, its efforts on trade facilitations should be directed towards partners outside of the EU.

At the global level, economies with the most efficient trade logistics share common features. First, they allow electronic exchange of information with customs and other control agencies. The use of electronic systems for transferring and processing customs information has become widespread. Currently, 88 per cent of economies around the world allow traders to submit at least some export and imports declarations, manifests or other trade-related documents to custom authorities electronically. Over the past 10 years, 127 economies – including Bulgaria – have introduced or improved such systems. Increasingly, countries are introducing electronic single windows that connect traders not only to customs, but also to other agencies involved in the import and export processes. The most sophisticated of these systems are moving to ‘paperless’ trade. Traders can electronically file information through a single entry point, to fulfill all import and export requirements and share it with all involved parties, including customs and other government agencies, banks, freight forwarders, and insurance companies. Secondly, economies with efficient trading environments use risk-based assessments which limit physical inspection to a small percentage of cargo, thus reducing customs clearance delays.

⁵⁹ OECD 2009. *Overcoming Border Bottlenecks*. Paris: OECD.

The Doing Business⁶⁰ report measures the time, cost (excluding tariffs), and the number of documents required to export and import a standardized cargo of goods by sea transport, while the Logistics Performance Index⁶¹ (LPI), the Enterprise Survey⁶² (ES) and the Global Competitiveness Index⁶³ (GCI) report business leaders' perceptions about trade logistics, as well indicators on experience of firms while importing and exporting (table 8.2). Recommendations in this section are based on the results for Bulgaria in the Doing Business report, taking into account the results from other indices where applicable.

Table 8.1 Trading across Borders in Bulgaria and best performers

Report	Indicator	Unit	Bulgaria	Regional average	Regional best performer	Global best performer
	Ease of Trading Across	Rank (1-189)	57	–	21 (Lithuania)	Singapore
	Documents to export	Number	4	7	4 (Lithuania; Georgia; Bulgaria; San Marino)	2 (France; Ireland)
	Time to export	Days	18	24	7 (Cyprus)	6 (5 economies)
	Cost to export	USD/ container	1,375	2,154	600 (Latvia)	410 (Timor Leste)
	Documents to import	Number	5	8	4 (Georgia; San Marino)	2 (France; Ireland)
	Time to import	Days	17	26	5 (Cyprus)	4 (Singapore)
	Cost to import	USD/ container	1,365	2,436	730 (Albania)	415 (Timor Leste)

⁶⁰ <http://www.doingbusiness.org/data/exploreeconomies/bulgaria/#trading-across-borders>

⁶¹ The International LPI provides qualitative evaluations of a country in six areas by its trading partners – logistics professionals working outside the country. See http://d21a6b425f3bbaf58824-9ec594b5f9dc5376fe36450505ae1164.r12.cf2.rackcdn.com/LPI_Report_2014.pdf

⁶² <http://www.enterprisesurveys.org/data/exploreeconomies/2013/bulgaria>

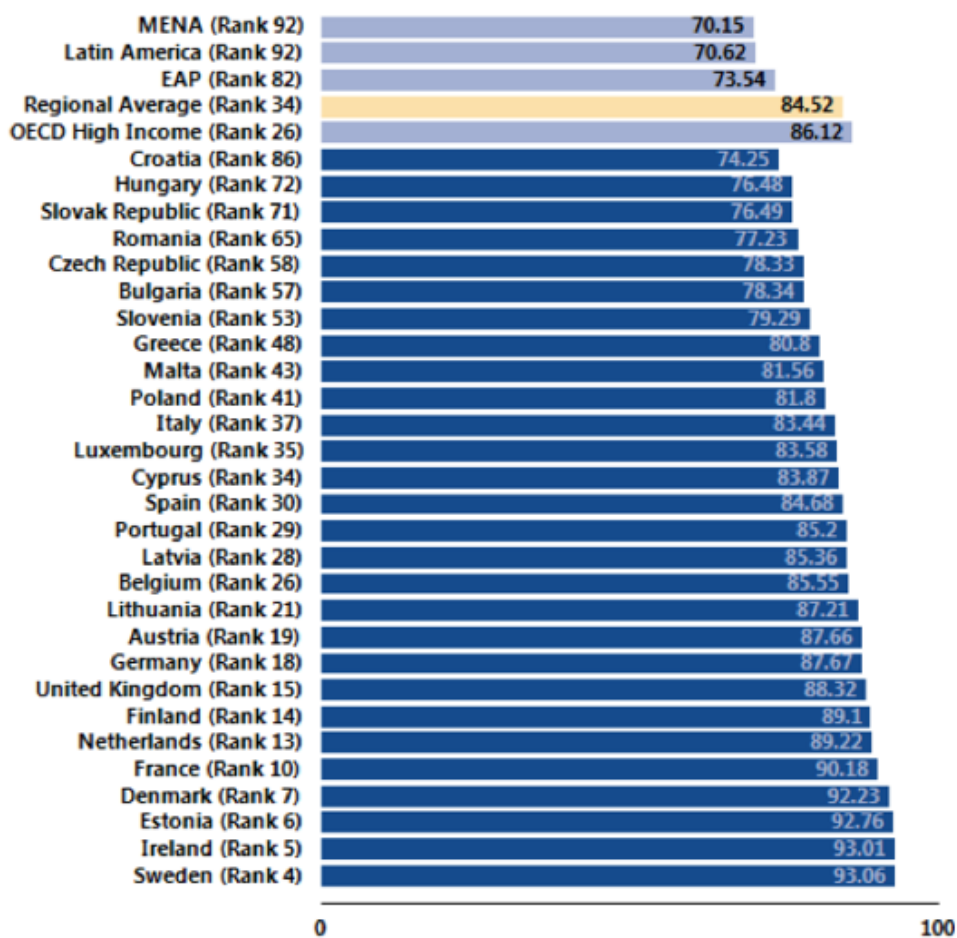
⁶³ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

Table 8.2 Other trade indicators

Report	Indicator	Unit	Rank/Score
			Bulgaria
LPI	Logistics Performance Index (general)	Rank (1-160)	47
	Logistics Performance Index (customs)	Rank (1-160)	64
ES	Customs & trade regulations identified as major constraint	per cent of firms trading	3.1
GCI	Burden of customs procedures	Rank (1-144)	67

The Doing Business Trading across Borders indicator looks at the entire process for import or export, from contractual agreement to getting the letter of credit to arrival/departure of the goods from the port of entry/exit. On average, in Bulgaria it takes 18 days to export and 17 to import, with an associated cost of \$1,375 to export and \$1,365 to import. At present, 4 documents are required for exports and 5 for imports. While Bulgaria's performance on this indicator is above the regional average in Europe and Central Asia, there is still considerable room for improvement in order to reach both regional and international best practices (table 8.1). Among EU countries, Bulgaria ranks better than Croatia, Hungary, Slovak Republic, Romania and Czech Republic but worse than other 22 economies, including Greece, Spain, Estonia and Sweden (figure 8.1.).

Figure 8.1. Trading Across Borders: Bulgaria compared to other EU member countries.



Source: Doing Business database.

Indicators over time

Electronic submission of customs export declarations was introduced in July 2009 while electronic submission of customs import declarations started on January 2011. As a result, by 2012, exporters and importers reported a reduction of the time they spent on document preparation. Now, neither exporters nor importers need to submit the declarations in person, but can start the customs clearance process through the new EDI system.

Short-term reform recommendation:

Improve inter-agency coordination for border management and clearance processes.

Cross border trade involves controls by many agencies. A coordinated border management and clearance process is therefore an essential element of trade facilitation and may result

in a sensible reduction in time and cost to trade across borders. In Bulgaria, coordination among border agencies could be significantly improved. According to OECD, the country's performance in border agency cooperation is below average for Europe and Central Asian countries as well as OECD countries.⁶⁴ These findings are confirmed by WEF, which identifies burdensome procedures as major obstacles for importing in the country.⁶⁵

Improved sharing of information among border agencies, streamlined processes for customs and non-customs controls, joint controls, establishment or improvement of the links and interoperability between customs and non-customs electronic systems may all contribute to the reduction of time spent in clearance procedures.

Small steps can have important repercussions, even in the short term. The government of Mali, for instance, has very recently implemented an interconnection system between two agencies – the Customs Agency and the *Direction Nationale du Commerce et de la Concurrence* (DNCC). The new system allows for electronic preparation and submission of certain export and import documents, and has resulted in a significant reduction in time dedicated to document compliance. Thanks to this reform, Malian traders do not need to go to the DNCC office anymore, only to the customs office, thus saving them a full business day.

Medium-term reform recommendation:

Establish an electronic single-window platform for trade-related transactions. Currently Bulgaria has no fully functioning system that allows importers, exporters and custom brokers to make all the necessary applications for licenses or permissions electronically. An electronic single-window system would allow trade professionals to carry out all their transactions through a single portal. The results of such applications could be fed automatically into the clearance system to inform the control authorities, and also advise the applicant. This would significantly speed up import and export processes, improve accuracy, and reduce opportunities for corruption.⁶⁶ Reaching higher levels of automation of the clearance procedures of import/export should also be taken into consideration, as it would provide better linkages with non-customs agencies, electronic processing of various customs and non-customs procedures.

⁶⁴ The scores of Bulgaria on the OECD trade facilitation indicators can be found at: http://www.oecd.org/tad/facilitation/Bulgaria_OECD-Trade-Facilitation-Indicators.pdf

⁶⁵ WEF 2014. *The Global Enabling Trade Report 2014*. Geneva: WEF.

⁶⁶ It must be noted that – according to WEF - corruption at the border is the third most problematic factor when importing goods in Bulgaria. *Ibid.*

Although electronic single window systems vary in their functionality and complexity, the best single windows systems will link banks, licensing agencies and trade clearance agencies into a unique platform, and allow exchange of information in real time, speeding up approvals. Best practices require a paperless customs clearance system, which should accompany the electronic data interchange system. The electronic single-window system would allow traders to upload all documentation and receive approvals online. Finally, the introduction of online payment systems would limit the number of physical interactions and time spent at the border.

Singapore, through its TradeNet system, has been a global leader in the implementation of such a platform/single window. TradeNet handles 20-30,000 trade declarations per day and links 35 government controlling units. Several economies have reported positive results from the implementation of single-window systems. The Korea Customs Service estimates that the introduction of its single-window system brought some \$18 million in benefits in 2010, part of the overall economic benefits that year of up to \$3.47 billion from the agency's trade facilitation efforts.⁶⁷

Good practices abound in Europe as well. The computerization of the German port of Hamburg, for instance, started in 1983, when the first harbor order was sent electronically from a haulage company through its port community system (DAKOSY). Today, the Port of Hamburg is a 100% "paperless port" and DAKOSY has become its single window platform. All logistics companies and authorities involved in the export, import and transit processes communicate their business data through its data center. Transport orders, customs applications, hazardous goods notifications, harbor orders, bills of lading and manifests are all transferred electronically through DAKOSY, which currently has more than 2000 customers including haulage companies, shipping lines, rail transport companies, trucking companies, feeders, international trade firms and industrial enterprises.⁶⁸

⁶⁷ Korea Customs Service. 2011. *The Embodiment of Business-Friendly Environment by KCS Challenges*. Seoul.

⁶⁸ For more information, please visit: <http://www.dakosy.de>

Enforcing Contracts

Research in various countries around the world suggests that, in the absence of efficient courts, firms make fewer investments and business transactions while informal transactions become more attractive. A study of 27 economies found that the informal sector's share in overall economic activity decreased with better contract enforcement quality, evaluated by a country-wide measure of rule of law, as well as by the firm's perception of the fairness of courts.⁶⁹ Improvements in court efficiency are associated with a lower share of the informal sector in the overall economic activity, increased investor confidence and increased bank financing of firms for new investment.⁷⁰ For example, reforms in other areas, such as creditors' rights, can increase bank lending only if contracts can be enforced before the courts.

Doing Business measures the efficiency (number of procedures, time and cost) of the judicial system in resolving a standardized commercial dispute before the Sofia City Court. Globally, Bulgaria ranks 75th in the ease of enforcing contracts among 189 economies, and 18th out of 26 in the Europe and Central Asia region. On average, entrepreneurs in Bulgaria pay 23.8 per cent of the claim value in attorneys, court and enforcement fees and need 564 days to resolve a commercial dispute through the courts. In Singapore, entrepreneurs need only 150 days to resolve the same dispute, while in Sofia the trial alone takes 334 days, and the enforcement of the judgment takes a further 125. The whole procedure according to Doing Business 2015 takes 38 separate steps.

Table 9.1: Enforcing Contracts in Bulgaria and best performers

Doing Business Indicator	Bulgaria	Regional average	Regional best performer	Global best performer
Procedures (number)	38	37.2	7 (Belarus)	21 (Ireland, Singapore)
Time (calendar days)	564	448.1	195 (Uzbekistan)	150 (Singapore)
Cost (percent of claim)	23.8 percent	25.2 percent	12.7 percent (Slovenia)	9.0 percent (Iceland)

⁶⁹ Dabla-Norris and Inchauste Comboni 2008.

⁷⁰ Among other papers, see G.B. Ramello and S. Voigt, 2012. "The economics of efficiency and the judicial system," *International Review of Law and Economics*; Mehnaz Safavian and Siddharth Sharma, 2007. "When Do Creditor Rights Work?" *World Bank Policy Research Working Paper No. 4296*; John Ahlquist and Aseem Prakash, 2010. "FDI and the costs of contract enforcement in developing countries," *Policy Sciences*, Springer, vol. 43(2), pages 181-200, June; Inessa Love, 2011. "Settling Out of Court: How Effective is Alternative Dispute Resolution," *Viewpoint Note No. 329*, The World Bank Group, October.

Reform efforts

The Doing Business methodology measures the performance of the commercial court in the biggest city of a given country. In Bulgaria, it is the Sofia City Court (SCC). Therefore, the assumptions, data, and recommendations, outlined in this chapter relate to SCC, which handles the vast majority (around 80 per cent) of the caseload of commercial disputes in Bulgaria. Other courts, not benchmarked by the Doing Business report could have shorter deadlines or offer more time- and cost-effective resolutions of commercial disputes and enforcement of commercial contracts, than SCC.

A major reform related to commercial dispute resolution was introduced in 2005 whereby private bailiffs were allowed to practice, with the aim of improving enforcement and collection of debts. In 2007, the Civil Procedure Code introduced a new rule limiting the ability of the Supreme Court to return cases to lower courts only once on the merits. This was a significant reform, considering that prior to 2007 there was a procedural possibility for the Supreme Court to return cases multiple times to the lower courts on different grounds.

According to Doing Business, however, there have been no *significant* reform efforts that affect this indicator during the past 10 years, excluding some piece-meal reforms related to the Civil Procedure Code and the Law on the Judiciary, which had more to do with the governance of the judiciary system than with particular targeted interventions aiming to reduce time, costs and procedures in commercial litigation and enforcement of contracts.

Table 9.2: Information on the number of commercial cases for 2014, broken down by courts

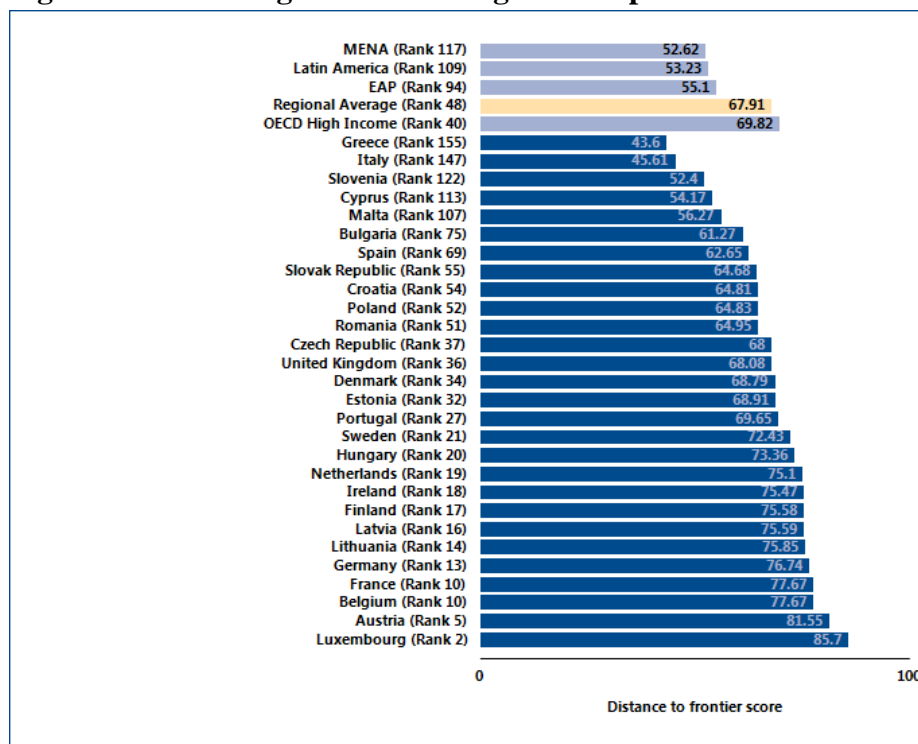
In 2014, 15 commercial divisions functioned in a total of 28 district courts within the country. 13 district courts had no commercial divisions.
The total number of judges hearing commercial cases in 2014 was 205. Although commercial departments are not present in 13 district courts, all 28 district courts hear commercial cases.
The total number of the commercial cases heard in 2014 was 31,075. The largest number of cases was in SCC (19 211), followed by Varna, Plovdiv, Stara Zagora and Burgas with more than 1000 cases each.

In July 2014, the Cabinet adopted a Strategy for the Introduction of E-governance in the Judiciary Sector (E-Justice) for the period 2014–2020. Its main objective is to increase efficiency through the use of electronic transactions not only by the judicial authorities, but also by other stakeholders, including government agencies, organizations, citizens and

businesses. The aim of the strategy is to expand E-Justice services to the public, enhance transparency, allow tracking of cases in real time, use data already collected by other administrative authorities, improve the speed and quality of administrative services, and give overall easier access to public information.⁷¹ The Ministry of Justice is coordinating the E-Justice reform through its E-Justice Department.

In January 2015 the National Assembly adopted an Updated Strategy for Continuing the Reform in the Judiciary, which will serve as the basis for future legislative amendments and analysis of the constitutional framework of the judiciary.⁷² A very important aspect of the Strategy and the Action Plan is the mandate to adopt criteria for assessing the workload in the judicial system at the level of individuals and institutions, which is a particular concern in SCC.

Figure 9.1 Enforcing contracts: Bulgaria compared to other EU member states



Source: Doing Business

⁷¹ Europe 2020, National Reform Program, Ministry of Finance, April 2015, available at http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_bulgaria_bg.pdf

⁷² Europe 2020, National Reform Program, Ministry of Finance, April 2015, available at http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_bulgaria_bg.pdf

Indicators over time

No business reform impacting the Enforcing Contracts indicator has been registered in Bulgaria for the past 5 years. However, 2 significant reforms were implemented in 2008 and 2009. In 2009, Bulgaria improved its contract enforcement system by amending rules for evidence and default judgment, raising the minimum threshold value for the lower jurisdiction and giving the civil court of last instance the power to select which cases to hear so as to limit abuse of the appeals process. In 2008, Bulgaria made enforcing contracts easier by introducing changes to its judicial system, increasing transparency in the system and appointing private bailiffs.

Short-term reform recommendations:

Assess the effectiveness of court procedures in order to identify bottlenecks and formulate solutions, especially for using ICT applications. In SCC, commercial litigation is a complex, paper-based process, characterized by multiple physical interactions between the court, the parties and their lawyers, the court administration⁷³, the court appointed experts⁷⁴, private bailiffs and the private bailiffs' officers who serve summons. Despite the fact that SCC and other courts have websites and semi-automated back-office case workflow and databases, the external communication between the court, the parties and the experts is an exclusively manual and paper-based interaction, with little attempt to introduce ICT applications which would streamline the process and save time and costs. For example, summons are still a physical process where the court officer has to physically serve summons to the parties; the same applies to other notifications and exchanges between the court, the experts and the parties. The reported huge workload of the commercial judges in SCC only adds to this problem. Although there is a special Commercial Department in SCC, there is no Specialized Commercial Court and no Small Claims Court, as in other countries.

In Sofia, it takes an average of almost 20 months to resolve a commercial dispute. During this time, plaintiffs have to wait more than a month between filing a complaint and serving notice to the defendant. Allegedly, as reported by some stakeholders, sometimes the serving alone can take between 6-12 months, despite the well-developed address registration system in Bulgaria and the broad use of landlines and cell phones, e-mails and all other ICT applications that allow for quick physical location of individuals. Going through the trial and obtaining a judgment takes an average of around one year, a large part of which is spent waiting for the first hearing and the subsequent adjournments. All this could be streamlined through process streamlining and the introduction of ICT applications

⁷³ Summon officers – “prizovkari” and court clerks “delovoditeli”

⁷⁴ Court appointed experts - “veshti lica”

to connect the court to the parties/experts. Once a judgment has been issued, it takes over 6 additional months for the judgment to be enforced through the public auction of the losing party's assets, including the involvement of private bailiffs and private serving officers who allegedly serve summons more quickly than the court officers.

It is recommended that both the procedures required by law, and the steps required in practice by SCC to take a case from filing through enforcement, should be mapped out. This exercise would help identify unnecessary administrative tasks required by court staff, judges, the parties and the experts, as well as opportunities for improvement with (and without) legislative changes. It could also help identify needs for adjustments to the laws and court rules, and for changes in resource allocation to enhance efficiency and cost effectiveness. Such an assessment can be conducted upon the government's request and may foster the ongoing efforts to simplify court proceedings undertaken by the Ministry of Justice and their E-Justice initiatives.

Assess commercial case data and workload. In order to get a better understanding of processing and resource requirements and bottlenecks, commercial case data from the different courts across the country, and especially from SCC, should be analyzed. Since different types of commercial cases require different effort and time, such workload and disposition assessment by case type is essential to developing targeted case management techniques, informing the potential need for a specialized court and small claims court, and planning for adequate resource allocations. Such assessment is also helpful for establishing processing standards and related performance indicators that reflect case complexity and special conditions.

Consider Introducing a Pre-trial Conference. Currently, the Civil Procedure Code does not allow parties to commercial disputes to participate in pre-trial conference before the competent court. A pre-trial conference is a meeting designed to narrow down contentious issues and evidentiary questions before the trial. Its purpose is to expedite the trial process while discouraging unnecessary pretrial motions or other delay tactics by the parties.

Medium-term reform recommendation:

Continue improving the e-courts system by introducing e-filing and electronic service of process, including summons (by e-mail, SMS, e-fax, etc.) Since early 2000, Bulgaria has achieved important progress towards the establishment of an e-court system. Over the past 10-15 years, all courts, including the two supreme courts, the 28 district courts, the municipal courts and the specialized courts have websites, digitized files, and use different

types of case management systems. Since 2012 SCC offers comprehensive information services through its website⁷⁵.

In spite of these efforts, the process of computerization is not yet complete. The two main issues are that every court uses a different ICT vendor and therefore a different case-management system, and there are a limited number of transactional e-services that the courts offer to the public. The most common service is online publications of court decisions and tracking of cases and deadlines, but fully transactional services, such as online payment of fees, online admission of evidence, online hearings and overall online dispute resolution are unknown for the Bulgarian judiciary. Furthermore, electronic communication between the parties and the court, particularly e-filing and electronic summons are not yet available. Similarly, the submission of evidence by the parties (as well as witnesses' opinions) must be carried out in paper format. Because of this, court staff, judges and users have to cope with a dual system where only a part of the information – such as minutes of the hearings and past court decisions – can be found online. As a result, the courts' premises are often cluttered with paperwork and files, court clerks are swamped with work, and delays ensue.

Adequate measures should be taken to gradually introduce a paperless e-court system. In Europe, countries have employed a range of e-solutions in order to improve their e-court systems. Such countries are Austria, Denmark, Finland, Norway, the Netherlands, UK, and Portugal. In Austria, all filings from lawyers in civil litigation and enforcement proceedings now go through an electronic data channel operated by the Ministry of Justice. Judgments are delivered by e-mail rather than by the old hard-copy notification process. Another country that successfully implemented an efficient case management system is Korea. The introduction of a comprehensive e-court system enables Korean judges to adjudicate up to 3,000 cases a year, manage up to 400 a month and hear up to 100 pleas a month (box 2).

⁷⁵ <http://scc.bg>

Box 2: Improving court efficiency: the Republic of Korea's e-court experience

Approaches to e-courts vary by economy depending on the capacities and priorities of the judiciary and the ability of court users to use such solutions. The tools available to court users in Korea have gradually expanded over time. Currently, the country ranks first in the world on the E-Government Readiness Index, a composite measure of the capacity and willingness of economies to use e-government for development.

The first case management system, launched in the mid-1980s, enabled internal court users to search for civil cases in the database. Now the system encompasses many features, most of which are dedicated to help judges (case management system and judge support system), facilitate the filing of cases for litigants (e-filing) and inform the public (publication of cases).

To further streamline procedures, a system facilitates payment of all submission fees electronically using credit card or wire transfers at the time of filing. In addition, users are notified by e-mail or text message of any submission of additional documents by the opposing party. After the case allocation system assigns cases, the designated judge and the attorneys can view all their cases online, including PDFs of all documents filed in a given lawsuit.

For judges, the support system includes 4 main features:

- The case management system, which allows judges to organize their work based on the status of procedures and to separately manage cases for which special measures are needed.
- “My case history,” which allows judges to track cases they have disposed and the final determination of these cases.
- A scheduling system to organize cases by day, week or month that is integrated with the court registry.
- A writing support system with features such as automatic document formatting, multiple judgment editing in small cases and collaborative decision writing in panel cases. This system automatically creates a draft of the final judgment after the relevant case and desired template have been selected. Once completed, judges enter a digital signature and register the decision in a searchable database of judgments

Online help centers featuring frequently asked questions and tools for pro se litigants were also created to allow the public to get fast answers on questions about the Supreme Court and its processes. One of the most important components of these help centers is the self-represented litigants webpage, which provides information and templates needed to file a case and respond to claims of counterparties without the help of a certified lawyer.

In the first two months after the launch of the e-filing system for civil cases, approximately 5% were filed electronically. This number almost decupled in 18 months. In fact, two years later, in June 2013, that share had soared to more than 45%.

According to Doing Business, in Seoul resolving a standard contract enforcement dispute takes 230 days, 32 procedures and costs 10.3 per cent of the claim – making Korea the runner-up in Doing Business's ease of enforcing contracts ranking. In many countries, concerns about budget and technology limitations are among the most common reasons for not implementing e-court features. That should not prevent less developed economies from looking into e-court options. E-court options may provide for cost savings in the long run, and up-front costs for developing such options can be implemented with donor assistance, supported by peer learning from courts in leading economies such as Korea.

If implemented carefully, e-courts can improve court document security and decision making transparency. In the long run, they also help countries save money. The implementation of Korea's e-court system, for example, resulted in savings of \$221 per e-filing. These savings result from a reduction in the use of paper, the time spent in court, cheaper service of process, lower transportation costs, easier archiving of documents, and easier payment of fees.

Source: Doing Business 2014.

Resolving Insolvency

The efficient regulation of business insolvency relates to the broader topic of access to credit. Studies suggest that where insolvency regimes are most effective, creditors – confident that they will be able to collect on loans – are more likely to lend, including to borrowers with whom they have not had a long-standing relationship. A well-balanced insolvency system also functions as a filter, separating companies that are financially distressed but economically viable from inefficient companies that should be liquidated. By giving viable companies a chance at a fresh start to reorganize and continue as going concerns, insolvency law may also help sustain a higher overall level of entrepreneurship in a country, protect jobs and maintain suppliers' networks, among other benefits for the economy. Moreover, by facilitating the efficient business exit and liquidation of unviable companies, a beneficial insolvency framework supports the efficient reallocation of resources across the economy.⁷⁶

The Doing Business report's 'Resolving insolvency' indicators is composed of two measures: the *debt recovery in insolvency* and the *strength of insolvency framework index*. The first measures the time, cost and outcome of insolvency proceedings for domestic companies. The indicator does not deal with situations where a business owner voluntarily winds up a company but, rather, where businesses become "insolvent", typically under one of two definitions: (1) the business is unable to pay its debts as these become due; or (2) the business has more liabilities than assets. The second index, introduced by Doing Business this year, evaluates the adequacy and integrity of the legal framework applicable to insolvency proceedings. Good practices are measured in accordance to the World Bank's *Principle of Effective Insolvency and Creditor/Debtor Regimes* and the United Nations Commission on International Trade Law's (UNCITRAL) *Legislative Guide on Insolvency Law*.⁷⁷

The data for the resolving insolvency indicators are derived from questionnaire responses by local insolvency practitioners and verified through the study of laws and regulations as well as public information on bankruptcy systems.

Bulgaria currently ranks 38 out of 189 economies in the Resolving Insolvency indicator, as measured by Doing Business. A secured creditor in Bulgaria – most typically a bank

⁷⁶See Djankov, Simeon. 2009. "Bankruptcy Regimes during Financial Distress." Mimeo, World Bank Group; Funchal, Bruno. 2008. "The Effects of the 2005 Bankruptcy Reform in Brazil." *Economics Letters*, 101: 84–86; Klapper, Leora 2011. "Saving Viable Businesses." Viewpoint 328, September 2011, The World Bank Group; Visaria, Sujata. 2009. "Legal Reform and Loan Repayment: The Microeconomic Impact of Debt Recovery; Tribunals in India." *American Economic Journal: Applied Economics*, 1(3): 59–81.

⁷⁷ World Bank 2011b; UNCITRAL 2004.

that accepts real estate as collateral – will follow an individual enforcement procedure (foreclosure) to collect on his debt upon default of the debtor. A foreclosure would be applicable to the case study assumed by the indicator, since neither the Commercial Law nor the Civil Procedure Code impose a moratorium on secured creditors (see below), who are entitled to proceed separately against the assets of the debtor. According to Doing Business, an average foreclosure procedure in Bulgaria takes more than 3 years and costs 9 percent of the insolvency estate, with the company being sold piecemeal as a result of the procedure. Creditors recover on average 33.2 cents on the dollar through the foreclosure. The process is longer, but less expensive than the average for the Europe and Central Asia region and the OECD, while the amount of the recovery from the insolvency estate is lower than the regional average. It is worth noting that the recovery rate is more than 2 times lower than in OECD economies, where the average recovery rate is 71.9 per cent per dollar.

The picture varies by sub-indicators, but it is worth noting that Bulgaria is a regional and world best performer in the *strength of insolvency framework* index, where the country is one of the 5 countries in the world to score 15 out of 16 points.

Bulgaria scores the highest in the *management of debtor's assets* sub-index (6 points out of 6) and in the *creditor participation* sub-index (4 out of 4 points). The country also scores pretty highly in the *commencement of proceedings* sub-index (2.5 out of 3 points which is slightly above the average of 2.4 for the ECA region) and in the *reorganization proceedings* sub-index (2.5 points out of 3). However, there is still room for improvement in these two indices.

Table 10.1 – Resolving insolvency ranking and best performers

Doing Business Indicator	Bulgaria	Regional Average	Regional best performer	Global best performer
Time (years)	3.3	2.3	1.4 (Montenegro)	0.4 (Ireland)
Cost (per cent of estate)	9.0	13.3	5 (San Marino)	1 (Norway)
Recovery rate (cents on the dollar)	33.2	37.7	70.5 (Cyprus)	92.9 (Japan)
Strength of insolvency framework index (0-16)	15	9.2	15.0 (Bulgaria)	15.0 (5 economies)

Overall the Bulgarian insolvency framework follows the Germanic/Central European tradition where the creditors and the courts are provided with greater power over the insolvency estate and the debtor's actions, compared to the Anglo-American system, particularly Canada and the US, where Chapter 11 of the Uniform Commercial Code

(UCC) provides a more flexible regime for debtors, particularly in procedures related to restructuring and workouts.

Reform efforts

The Insolvency regime in Bulgaria is almost exclusively arranged in Chapter IV of the Commercial Law. It is interesting to note that while the other 3 chapters of the Companies Law were enacted in 1991, it took the legal establishment and the parliament 3 additional years to agree on and adopt Chapter IV with the insolvency framework in late 1994. The tendency of delaying the enactment of the insolvency frameworks was somewhat common for other Europe and Central Asia economies in transition, particularly for the former Soviet republics, including Russia.

In addition to the Commercial Law, some general provisions of the Civil Procedure Code are also applicable in the judicial phase of the insolvency. Other legal sources are also important for the Bulgarian insolvency framework – the most important are the Accounting Law, which refers to special reporting standards for insolvent companies⁷⁸; the Law on Public Accounts Receivables, which arranges the regime of public receivables⁷⁹ of insolvent companies; and the List of Insolvency Practitioners (Syndics) approved and maintained by the Minister of Justice. Currently Bulgaria and Romania are the only two EU members who don't have specialized personal insolvency legislation, and apply the generic provisions of the Civil Procedure Code, the so called “universal personal insolvency”.

The reform of the modern insolvency regime of Bulgaria has a long history despite its short existence since 1994. Chapter IV of the Commercial Law is one of the most reviewed and amended pieces of legislation in Bulgaria, and has often been supported by technical assistance programs provided by the IMF, EU and USAID.

Currently the Bulgarian Government is undertaking another round of reforms aiming to further improve the pre-insolvency proceedings, corporate work-outs, and the administration and regulation of the insolvency administrators (syndics).

The newest Insolvency Reform Working Group is set up by the Minister of Finance and includes members from the Ministries of Economy, Justice, Finance and other related stakeholders such as courts, banks and the legal academia. Its mandate is to elaborate on draft proposals for amendment of Chapter IV of the Commercial Law. The proposed

⁷⁸ See article 22b, para 5 of the Accounting Law which states that the Council of Ministers should adopt a special amounting standard for insolvent companies

⁷⁹ Taxes, custom duties, social, medical and pension deductibles, and other receivables due to the Government by the insolvent company.

amendments are not aimed at improving the judicial phase of insolvency but, rather, solely on the Pre-Bankruptcy Settlement Procedure (PBS).⁸⁰ The mandate of the working group is to focus on:⁸¹

1. Introduction of preventive procedures that will allow a debtor to continue his activity (as a going concern), while at the same time negotiate with creditors in order to avoid the start of insolvency proceedings and declaration of insolvency;
2. Introduction of expedited restructuring proceedings through a fast-track court approved procedure of pre-agreed agreements within the preventive procedure. The idea is to use commercial departments of the courts taking over such cases, subject to discussions with the Supreme Judicial Council;
3. Introduction of a sound legal framework providing guidance for out-of-court debt restructuring, which will provide opportunities to use mediators in out-of-court restructurings, and will guarantee a better balance between process simplification, reduction of time and cost, and the need to ensure legal protection of the rights of creditors and other relevant stakeholders.

In addition, by the end of the third quarter of 2015 the government is aiming to adopt a road map for implementation of the Strategy for the Introduction of E-Governance and E-Justice in the Justice Sector (2014 – 2020). This will ensure the required interconnectivity between the courts with respect to the insolvency register and the registration of insolvency. The implementation of the road map will start at the beginning of 2016.

The government is considering measures for improving the quality of insolvency-related data contained in the Commercial Registry by the end of 2015. A functioning system for exchange of data between the Bankruptcy Proceeding Information System (BPIS), the four court case management systems and the Commercial Registry has been built under a project entitled “Improvement of the service to the citizens and the business through development of the information system of the Registry Agency Commercial Register.” There appears to be insufficient data and a lack of sufficiently reliable information for insolvency that could allow a proper evaluation of the effectiveness of the legislative and application measures taken.

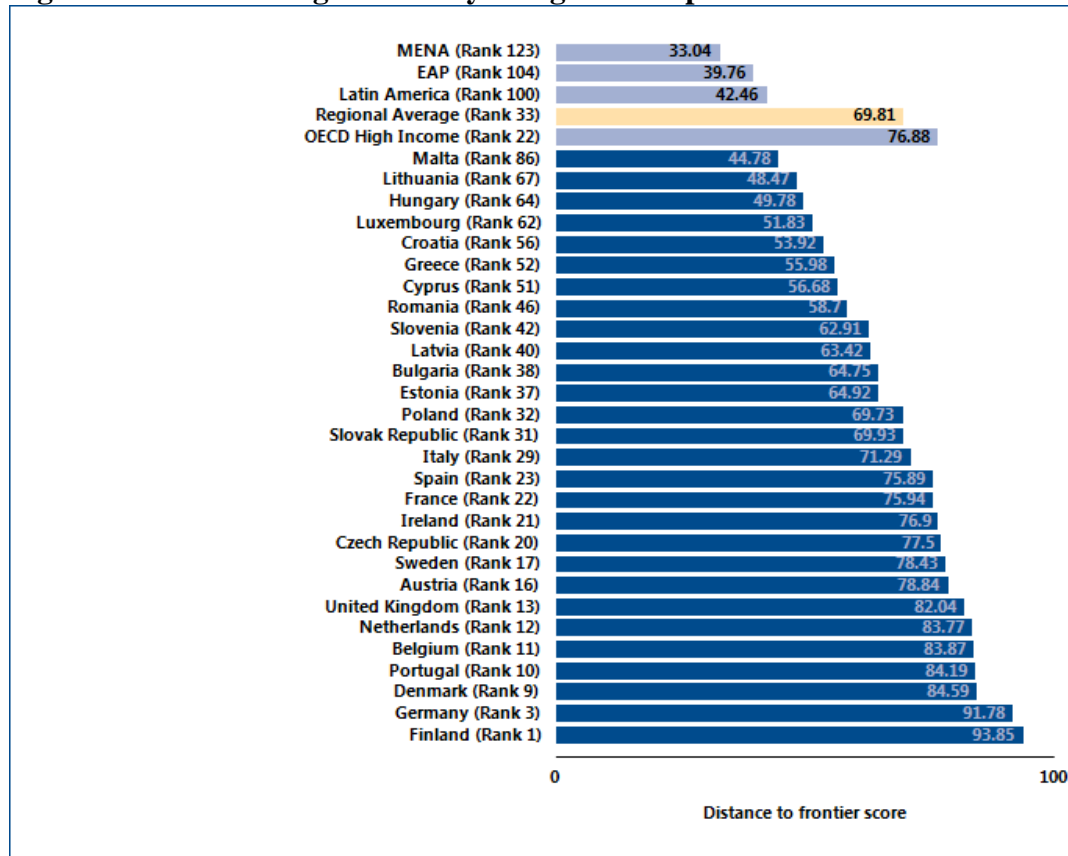
Finally, the government has formally requested that the World Bank Group prepare a Report on the Observance of Standards and Codes (ROSC) on the insolvency system of Bulgaria. The ROSC is a formal benchmarking that will measure the consistency of both

⁸⁰ It is important to mention that in the case of Bulgaria the procedure analyzed under this Doing Business index is not the Pre-Bankruptcy Settlement Procedure (PBS) but the judicial bankruptcy procedure regulated in Chapter IV of the Commercial Law (1991).

⁸¹ Europe 2020, National Reform Program, Ministry of Finance, April 2015, available at http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_bulgaria_bg.pdf

the law and practice in Bulgaria against internationally accepted best practice, as captured in the *World Bank Principles for Effective Insolvency and Creditor/Debtor Rights* and the *UNCITRAL⁸² Legislative Guide on Insolvency*. Upon the conclusion of the ROSC in Q4 of 2015, the government will be presented with detailed recommendations for short-, medium- and long-term reforms to improve the quality of the insolvency framework, including – but not limited to – those dimensions of the insolvency framework that are measured by the “Resolving Insolvency” indicator. We look forward to continuing the dialogue with the government following the issuance of the ROSC.

Figure 10.1 – Resolving Insolvency: Bulgaria compared to other EU member states



Source: Doing Business

⁸² United Nations Commission on International Trade Law.

Indicators over time

There were only 2 Doing Business reforms impacting the Resolving Insolvency indicator registered in Bulgaria for the past 5 years. In 2012, Bulgaria amended its commerce act to extend further rights to secured creditors and increase the transparency of insolvency proceedings. In 2009, Bulgaria adopted a new civil procedure code and a new law for the commercial registry, introducing changes expected to reduce delays and allow for faster resolution of bankruptcy. Among other things, the commercial registry law requires that major decisions and rulings of the bankruptcy court be posted on the commercial registry's website.

ANNEX

Methodological updates and extensions in the indicators measured by the Reform Memorandum expected in the upcoming Doing Business 2016 report.

In addition to the methodological updates introduced by the 2015 report – revision or ranking calculation; expansion of city sample in large economies; broadening of the scope of the Getting Credit; Protecting Minority Investors; and Resolving Insolvency indicator sets – Doing Business is planning additional improvements for the upcoming 2016 report. Most of these improvements were inspired by the recommendations of the Independent Panel on Doing Business, and by broader consultations that have taken place over the years with World Bank Group staff, country governments and the private sector.⁸³ The improvements for the Doing Business 2016 include significant methodology changes in the Trading Across Borders indicator as well as methodology expansions of 3 other indicators covered by this Reform Memorandum. Please find them summarized below:

1. **Trading Across Borders:** Doing Business currently measures the time, cost and documentation requirements associated with imports into, and exports from, each economy. Several important methodological updates (e.g. changes in the assumptions concerning the traded product, trading partner, mode and route of transportation, method of payment, as well as the methodology for inclusion of documents and calculation of time) are underway and will be reflected in Doing Business 2016. For each 189 economies, it is now assumed that a shipment travels from the warehouse in the main business city of the exporting economy to a warehouse in the main business city of the importing economy. Import and export case studies assume different traded products. It will be assumed that each economy imports a standardized shipment of 15 metric tons of containerized auto parts (HS 8708) from its natural import partner (i.e. the economy from which it imports the largest value – price times quantity – of auto parts). It will be assumed that each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner (i.e. the economy that is the largest purchaser of this product). Minerals, ores, live animals, and pharmaceuticals are excluded from the list of possible export products and, as needed, the second largest product category is then considered. To identify the trading partners and export product for each economy, data on trade flows for the most recent 4-year period were collected from international databases like UN COMTRADE. For certain cases where economies trade flow data are not available, ancillary governmental sources (various ministries and departments, World Bank Group's country offices)

⁸³ For more information on the Independent Panel on Doing Business and its work, see its website at <http://www.dbrpanel.org>.

were used to identify the export product and natural trading partner. An implication of the above is that natural trading partners may be neighboring economies that can be accessed via land. Thus trade conducted via the most widely used mode of transport (which could be sea, land, air or some combination of these) will be considered when calculating time and cost. Starting in Doing Business 2016, any time and costs that is attributed to an economy will be those incurred while the shipment is within the geographic borders of that economy. That is, the new methodology will separate out time and costs incurred while the shipment is in transit. The calculation of time spent on document preparation; customs and inspections; port/border handling; and domestic and international transport will take into account simultaneity of various processes. The definition of documents will be expanded to include all electronic submissions of information requested by any government agency during the import and export processes. It will no longer be assumed that payment is made through a letter of credit, hence all documents that are required solely for the processing of the letter of credit by banks or government agencies will be excluded. All documents required by the government agencies through the entire export/import process, regardless of frequency of obtaining the document (e.g. if export license could be obtained once in 5 years but is required to be submitted/shown to the government agency during export process) will be considered.

2. **Registering Property:** since 2014, the indicator set has measured the procedures, time and cost to transfer a property from one company to another. Starting in Doing Business 2016, the indicator set will be expanded to cover the reliability, transparency and geographic coverage of land administration systems as well as dispute resolution for land issues.
3. **Dealing with Construction Permits:** the existing indicator set measures the procedures, time and cost to comply with the formalities to build a warehouse – including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections. The indicator set will be expanded in Doing Business 2016 to measure good practices in construction regulation. To assess these characteristics, a new indicator on regulatory quality will examine how clearly the building code or building regulations specify the requirements for obtaining a building permit and how easily accessible the regulations are. Another indicator will assess the effectiveness of the inspection systems, covering quality control before, during and after construction. Finally, a specific indicator will cover the qualification systems of the professionals responsible in plan verification and construction supervision, as well as the liability and insurance structures to cover losses resulting from any structural faults.

4. **Enforcing Contracts:** Doing Business currently measures the procedures, time and cost to resolve a commercial dispute between 2 firms. The indicators have focused on the efficiency of the commercial court system without directly addressing the quality of the judiciary or the judicial infrastructure. Starting from Doing Business 2016, the Enforcing Contracts indicator set will be expanded to cover aspects of judicial quality and court infrastructure, focusing on well-established good practices that promote quality and efficiency in the commercial court system. Once these new data are collected and presented, the indicator on the number of procedures to enforce a contract will be dropped.

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