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To: Gary Maher  
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From: Margot Machol *JMM*  
President  
Chesapeake Associates

Re: Final Project Report  
EUR-0249-A-00-2073-00

**Summary:**

Chesapeake Associates is extremely proud to report that it met or exceeded all of its objectives in establishing the first independent economic institute in Bulgaria. The program objectives included establishing an institute which would conduct research and perform studies on pertinent economic issues; providing the institute with linkages with U.S. universities, think tanks and businesses; having the institute become a nationally known focal point for sound economic analysis of the government's policies and programs and other important current economic issues, and for providing training and education in Bulgaria; and having the institute be fully independent of U.S. federal government funding within two years. In every respect, the program has been an unqualified success.

The Institute for Market Economics was established in Sofia, Bulgaria, in early 1993. By the end of 1994, it had become recognized as a major player in the policy process. One of its founding--and current--Board members was

honored to serve as interim Prime Minister during autumn, 1994. The Institute's Executive Director, a former Member of Parliament, was asked by the President of Bulgaria to accompany him on an upcoming trip to the U.S. The Director of Research is universally acknowledged to be the country's leading expert in securities and financial market issues. The Institute's Board of Directors consists of the country's best-known and most highly respected economists and businessmen; the International Advisory Board consists of extremely well known market-oriented economists, which also provides relationships with eight institutes; other important international relationships have also been established.

The Institute publishes a newsletter which is widely read; it is frequently asked to make presentations before influential policy makers, the press, or businesses (such as the Bulgarian International Business Association); and its staff is sought after to appear at international conferences to represent Bulgaria. They have participated in or chaired 18 conferences, roundtables, seminars, and courses. They have also published over 60 papers and articles and five books.

One measure of the Institute's influence was in the level of the attendees at a conference they sponsored immediately after last month's elections on its implications for the economic outlook for Bulgaria. All of the country's leading economists and opinion leaders were present, including the former and future finance ministers, the two biggest Bulgarian newspapers, and Reuters and Radio Free Europe. Due to publication of the minutes, the conference received national and international attention.

One of the greatest contributions the Institute has made has been the development of new securities legislation for the country. This legislation, which was prepared pro bono for the Institute by the U.S. Securities and Exchange Commission, has been approved by an inter-agency committee in Bulgaria and, while the legislature has been stalled due to the December elections, the relevant members of Parliament have all indicated a willingness to pass the legislation fairly soon.

Another extraordinary achievement has been the amount of non-AID funds the Institute has generated. The original goal, as set out in the Cooperative Agreement, was for the Institute to raise \$148,000 in cash and in-kind. In

fact, the Institute raised more than twice that amount, \$377,445, which also exceeds the government's total funding of this project. Of this, \$118,395 was in-kind contributions, while more than twice that amount, \$259,250 was cash. Thus, the Institute is now completely self-supporting. AID should be very pleased with the success of this project.

### **Description/Quarterly Highlights:**

#### **1st Quarter:**

A comprehensive, detailed Implementation Plan was prepared, negotiated with, and approved by AID.

Conversations were held with a large number of U.S. economists about serving on the International Advisory Board or providing assistance to the Institute.

Requests for bids for computers for the Institute were sent to five computer companies.

I took my first trip to Bulgaria and met with many government officials and prominent economists, three of whom agreed to serve on the Board of Directors; interviewed candidates for the staff; looked at potential office sites; and began arrangements to register the Institute.

#### **2nd Quarter:**

I took my second trip to Bulgaria and attended the organizational meeting of the Institute, where the by-laws were negotiated and approved; three staff members were hired, including the Executive Director, Director of Research, and office manager; and eight charter members were approved for the Board of Directors.

Relationships were established with four U.S. think tanks and nine prominent economists agreed to serve on the International Advisory Board.

The Institute held three meetings, agreed on four projects to undertake and approved its budget.

#### Third Quarter:

The Institute's Executive Director had a week of extensive visits in the U.S., meeting with six think tanks, two universities, three foundations, four government agencies, two international financial institutions, and the Institute's International Advisory Board.

The Institute raised its first non-AID funds: \$6,000 from the German Frederick Neumann Foundation for equipment and \$4,000 from the Open Society Fund for rent.

The Chief Economist of the U.S. Securities and Exchange Commission spent a week at the Institute, working with them on securities issues, and participated in their first roundtable discussion on the stock market, which was extremely well received.

#### Fourth Quarter:

The Institute grew to its full 12-person Board of Directors and added two more economists to its staff.

A U.S. management expert visited the Institute and worked with them on accounting and budgeting practices, newsletter preparation, and management tools.

The Institute published several papers on Bulgarian stock exchanges, two on privatization, and one on foreign investment. They also hosted or played lead roles in several seminars, and were asked to select participants for two World Bank seminars, Fulbright scholarships and Pew Fellowships, demonstrating that they were beginning to develop an impressive reputation.

They also began playing a major role in securities legislation: They were asked by the Parliament to develop draft legislation; formed an inter-

agency working group of all the major players; and got an agreement from the SEC to draft legislation pro bono.

#### Fifth Quarter:

By this point, the Institute had published 17 articles, had many more published about their activities, participated in six international conferences, and were translating four books.

The SEC attorney who drafted the securities legislation and I visited Bulgaria and had a series of meetings with all the policymakers in the securities area. Subsequently, the legislation was revised, and translated pro bono.

A prominent U.S. international lawyer visited the Institute to discuss privatization and dispute resolution mechanisms with the Institute. He had a series of useful meetings on these subjects with senior officials.

The Institute became a member of ICEG, the International Centers for Economic Growth and developed a relationship with BIBA, the Bulgarian International Business Association. They received \$7,000 from USIS to publish three books.

#### 6th Quarter:

The Institute continued raising funds: from Salomon Brothers to provide economic and political analysis; the French government for a project on market reforms; the German A.I.D. to distribute money across Bulgaria for small projects on investment and tourism; and the German government to set up a library of current economic publications.

They gave a one-week course to brokers/dealers in Sofia on securities issues and another in Gabrovo, the first such course in a rural area. They published several more papers on important topics such as foreign investment, privatization, and the economic forecast.

I visited Bulgaria with the SEC attorney who had drafted their legislation and, in addition to ongoing planning and budgeting with the Institute, attended a path-breaking 1-1/2 day inter-agency detailed discussion of various proposals on securities legislation.

#### 7th Quarter:

An expert from the Banking and Finance Assistance Program of the Center for East-West Studies spent a week at the Institute working with them on bank privatization and meeting with senior government and banking sector officials.

The Institute's Executive Director participated in the EBRD's annual meeting in St. Petersburg and in a colloquium on markets and freedom in Eastern Europe in Austria. He also took his second visit to the U.S., where he met with representatives from CIPE, the IFC, some foundations, and attended a meeting of the Institute's International Advisory Board.

The Institute published 21 more papers. The inter-agency working group on securities, which included the Institute's Director of Research, met on a regular basis to follow up on the earlier discussions, and forwarded to the Council of Ministers securities legislation which was almost entirely the Institute's draft.

#### 8th Quarter:

The Institute was visited by Sir Alan Walters, Margaret Thatchers' chief economic adviser, who met with the President, Finance Minister, and Central Bank Governor, and gave a standing-room-only lecture on reforms in post-Communist Europe. The visit received much press attention.

The Institute continued its success in raising funds: \$1,500 from EC PHARE for a study of Bulgarian securities markets; \$45,000 from the German AID for work on privatization; and \$80,000 from ICEG for a project on the transparency of capital markets.

The Institute's Executive Director visited Budapest to attend ICEG's conference on economies in transition and visited Bucharest to attend a conference sponsored by the Open Society Institute on the economic situation in the Balkans. The Director of Research visited Vienna to attend a World Bank seminar on enterprises in transition.

#### Final Quarter:

The Institute received \$78,000 from CIPE for a project to strengthen NGOs and business associations. This brought to \$301,510 the amount of non-AID money raised by the Institute, of which \$42,260 was in-kind and a staggering \$259,250 was cash.

The Institute spent a great deal of effort laying the groundwork for a regional network of economic public policy institutes in the Balkan peninsula. While they had worked with their counterparts in other parts of Europe, they had not previously worked with institutes in Albania, Macedonia, and Romania. An excellent proposal to develop a Balkan network, work on the hidden barriers to economic growth, and hold a major conference for the Balkans is now pending before AID; we hope it will be given serious consideration. George Soros has indicated a willingness to participate if AID supports the project.

The Institute held a significant conference on the implications of the elections for Bulgaria's economy. It was attended by all the key policy makers, including the former and future finance ministers, and received widespread attention. The World Bank has discussed funding them for a follow-up conference.

#### **Significance of Project - Comments and Recommendations:**

The establishment of the Institute for Market Economics has proved to be an unqualified success. Within two years, it has become completely self-supporting, and will remain a powerful voice nudging the country toward market-oriented reforms. For less than is often spent to develop new

legislation, the Institute has not only developed legislation, but it will continue to play a key role in shaping policies in Bulgaria for years to come.

I believe this has been an extremely worthwhile endeavor for AID. Long after AID's funds have been spent, the Institute will continue to be a focal point for education and training on market-oriented policies, through publications, seminars, and conferences. I urge AID to consider funding similar projects in other newly emerging democracies.

### **Fiscal Report:**

Attached is a budget comparing budgeted with actual spending amounts. The actual amount spent was quite close to the budgeted amount in almost all respects with only a few exceptions, as follows:

Travel: 13 trips were budgeted: four for the U.S. Project Director to go to Bulgaria, two for the Institute's Executive Director to go to the U.S., and seven for U.S. pro bono consultants to go to Bulgaria. All of these trips took place. However, due to more non-AID travel funds raised than anticipated, combined with various cost-saving measures, \$23,000 in AID money was saved in this category. It was reallocated as follows:

\$4,000 extra was spent on U.S. program management. This was because of various cost-saving measures the project was able to run an extra three months; had the project not received a three month no-cost extension, it would have spent less than projected in this category.

\$12,000 extra was spent on U.S. other direct costs. The bulk of this money was spent on Bulgaria: printing brochures for the Institute, mailing and shipping to the Institute, telephone calls to the Institute. And again, this much would not have been spent without operating for an additional three months longer than originally planned.

\$7,000 extra was spent on non-expendable equipment for Bulgaria. This was to buy them better computers and a more powerful copier than had been budgeted for.

Non-federal money: \$148,000 in-kind contribution was budgeted; \$377,445 was raised, \$229,445 more than budgeted. Of the non-Federal contribution, an extraordinary \$259,250 was cash, greatly exceeding what I had dreamed was possible.

All in all, I am quite proud of the budget. I believe AID got more for its money than it had expected to.

	<u>AID BUDGETED</u>	<u>AID ACTUAL</u>	<u>NON-FEDERAL BUDGETED</u>	<u>NON-FEDERAL ACTUAL</u>	<u>TOTAL BUDGETED</u>	<u>TOTAL ACTUAL</u>
<b><u>DIRECT COSTS</u></b>						
<b><u>Headquarters (US)</u></b>						
Program Management	181,427	186,000	-0-	-0-	181,427	186,000
Consultants	-0-	-0-	69,000	71,410	69,000	71,410
Other Direct Costs	19,273	31,199	-0-	-0-	19,273	31,199
<b><u>Institute (Bulgaria)</u></b>						
Non-expendable equipment	17,300	24,650	-0-	6,000	17,300	30,650
Operating costs	71,000	71,090	34,500	249,618	105,500	320,708
Travel	56,900	33,361	9,400	21,293	66,300	54,654
<b><u>INDIRECT COSTS</u></b>						
Overhead (headqtrs)	27,400	27,000	-0-	-0-	27,400	27,000
Overhead (Institute)	-0-	-0-	<u>35,100</u>	<u>29,124</u>	<u>35,100</u>	<u>29,124</u>
<b><u>TOTAL</u></b>	<b>373,300</b>	<b>373,300</b>	<b>148,000</b>	<b>377,445</b>	<b>521,300</b>	<b>750,745</b>