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The main goal is to enhance the quality and quantity of intellectual exchange among researchers, educators, scholars and practitioners dealing with major issues of public administration and public policy in the Central and East European regions.

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NISPAcee Occasional Papers are published with the support of the Local Government and Public Service Reform Initiative (affiliated with the Open Society Institute), Nador ut. 11, 1525 Budapest, Hungary.

ISSN 1335-5945
Bulgarian Brady Bonds and the External Debt Swap of Bulgaria

Armenuhi Pirian *

Abstract
The first part of the paper describes the historical development of the debt crisis in Bulgaria and the possible solutions. Different alternatives for the administration are given as well as a specific solution in the case of Bulgaria.

The second part of the paper looks in detail at the two deals of external debt swap that the Bulgarian government implemented in 2002. The motives and results from those deals are discussed.

Key words: Bulgaria, Brady bonds, debt swap

Bulgarian Debt Crisis
Every country carries the burden of external debt in different ways. However, it remains one of the country’s main economic problems. Every government has three options for dealing with debt crisis situations.

The first alternative is to decree a moratorium, which means to stop any payments on the debt. The second alternative is to reach agreement with the creditors to defer the debt payments. In this case, there is an instalment plan, which might include cancelation of part of the debt and certain exchange of debt for equal amount of equity (known as swap). The third alternative for a government is to contact international financial institutions such as the International Monetary Fund and the World Bank. The administration might ask for a loan, under certain conditions, which will allow continuation of the debt payments.

All three alternatives have their pros and cons. The first approach – moratorium – is very rarely used. The more popular practice is to defer the debt, to reach an agreement with the International Monetary Fund (IMF), or both. Countries in South America applied debt deferment during the 80’s. IMF programs and its financing have become very popular, too. Bulgaria declared a moratorium on its external debt, but was still able to reach an agreement with the IMF and the World Bank.

According to the Bulgarian National Bank (BNB), Bulgarian external debt in 1992 was $12.4 billion. The debt serving coefficient (the debt serving coefficient is determined as the percentage of the export of goods and services only in convertible currency) is very high – 41% in 1985 and 74% in 1989 (see Table 1). The enormous Bulgarian debt is due to the budget deficits accumulated in the 90s, as well as to the fact that the government had to pay an excessive amount on the external debt. That amount was due to the high interest, as well as to the fact that a significant part of the principal was due in 1990. Thus, the situation around the Bulgarian external debt was very complex and serious efforts were necessary to solve the problem.

On March 29, 1990, Bulgaria unilaterally declared discontinuation of its payments on the principal and interest on its foreign debt towards the London club creditors – a total of over 300 private institutions. The debt is denominated in 12 different currencies, and around 80% of the principal is in US Dollars and Deutsch Marks. The majority of the debt is in the form of direct loans, loans from commercial bank syndicates, letters of credit, and money market instruments.

Bulgaria was in crisis in regard to its external debt. Although the crisis was the direct result of different factors that are not within the control of the government, a significant part of the crisis burden fell on the current administration. The specific features and perspectives of debtor countries are characterized by huge differences. Therefore, an individual approach in solving the problem is always justified.

The fact that specific features of the debtors are different should lead to a larger variety in IMF stabilization programs rather than the standard package of devaluation and deregulation.
Furthermore, when taking decisions, the mutual dependence among debtor countries must be taken under consideration. It is useless to recommend to a large number of countries in crisis that they encourage export-oriented growth, if such an approach leads to lower export prices on the international market. That would naturally curtail export revenues.

It should also be pointed out that debt crisis is not only a problem for the economies of debtor countries, but it also creates difficulties for developed financial markets. The stagnation in debt-burdened economies also limits the perspectives for development of the real economy in western countries. Therefore, a solution to the crisis would benefit everybody.

**Decisions For Overcoming The Debt Crisis**

In March, 1989, the United States of America proposed a new initiative – the Brady plan. It consists of the following general elements:

- Central Banks need to coordinate efforts with debtor countries in order to diversify the forms of financial support. This support should be targeted towards reducing the principal amount, continuation of payments, and coordination of new loans;
- IMF and the World Bank need to deliver funds to reduce the amount of the debt or its burden; and
- The plan stipulates that IMF not wait to intervene until the banks reach agreements on the new loans. The reason behind this is the desire of the IMF to overcome the co-ordination problem as well as to encourage banks to loan the necessary amounts.\(^1\)

According to the Brady plan, official institutions must have a policy of debt reduction through market negotiations. This signifies the realization of voluntary transactions on the market.

**The Bulgarian Brady Deal**

After three years of negotiations, on July 28, 1994, Bulgaria signed a Brady contract for the reduction and restructuring of its debt. The Bulgarian debt towards London club creditors was spread among four options: repurchase, discount bonds, front loaded interest reduction bonds, and interest arrears bonds.

Under the “REPURCHASE” option, Bulgaria offered to buy 20% of its debt from its creditors. The IMF and the World Bank provide the necessary financing for this operation.

The Bulgarian Brady bonds, issued on July 28, 1994, are of three different types with an overall nominal value of $5.137 billion. The coupons are due twice a year in the months of January and July. The bonds are personal and transferable.

### Bulgarian External Debt Payments for the period 1985 – 1990

(*dollar rates are in millions of US dollars*)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total debt payment</th>
<th>Principal</th>
<th>Interest</th>
<th>Debt Serving Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>1,652</td>
<td>1,466</td>
<td>186</td>
<td>41</td>
</tr>
<tr>
<td>1986</td>
<td>2,731</td>
<td>2,467</td>
<td>264</td>
<td>83</td>
</tr>
<tr>
<td>1987</td>
<td>2,605</td>
<td>2,243</td>
<td>362</td>
<td>64</td>
</tr>
<tr>
<td>1988</td>
<td>2,528</td>
<td>2,086</td>
<td>442</td>
<td>58</td>
</tr>
<tr>
<td>1989</td>
<td>3,010</td>
<td>2,330</td>
<td>680</td>
<td>74</td>
</tr>
</tbody>
</table>

* Bulgaria had to pay $2.9 billion in 1991, but because of the moratorium, the amount was not paid.

Source: Colander D., Macroeconomics, vol.1, Sofia 1999, page 368

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\(^{1}\) Krugman P., M. Obstfeld, *Economie international, 2eme ed*, 1995, p.792
ments for the next 12 months are secured with short-term, low-risk stocks, at a nominal value of 7% of the principal.

There is a clause for recovery of the value. It provides that, if for a certain calendar year \( N \), the Bulgarian GDP is equal or higher to 125% of the GDP in 1993, and if the GDP for the next year \( N+1 \) is larger than that of the previous year, there will be an additional annual interest of \( \frac{1}{2}\% \) on the unpaid principal for the Discount Bonds.

The second type of bond is the Front Loaded Interest Reduction Bond (FLIRB). The nominal value of this bond is $1.67 billion with a due date of 2012. This bond has a gradually increasing interest rate of from 2% during the first two years to LIBOR+13/16 after the seventh year. The payment is guaranteed with collateral (18-year American Treasury Bonds).

FLIRBs are subject to mandatory “buy back”, which needs to be realized with 21 semiannual payments (on the dates of the interest payments). The first installment is in July 2002, and the last installment is in July of 2012. Each of these 21 purchases is equal to the principal owed on the date of the interest payment divided by the number of dates for payment of the interest.

The third type of Bulgarian bond is the Interest Arrears Bond (IAB). These bonds are the only option through which Bulgaria does not receive any reduction of the debt. With IABs, the government is obliged to buy all unpaid interests up to the date of the agreement (excluding the ones in the “Repurchase” option). The nominal value of these bonds is $1.615 billion, over a 17 year period, due in 2011. There are 21 semiannual payments. The first installment is was due in July 2001, after seven years free of charge. The interest is six-month LIBOR+13/16. The principal and the interest are not secured.

The Bulgarian Brady bonds might become immediately due and payable on the demand of at least 25% of their holders under the following conditions:

- Failure to pay interest on any of the above bonds 15 days after the due date;
- Failure to provide the necessary security; or
- Bulgaria declares a moratorium on external debt payments.

The issuer of the bonds has buy back rights at any time through public supply or operations on the free market, regardless of price and motives. The only condition is not to fail to pay an installment on any type of Brady bond.

55.5% of the Bulgarian external debt is in Brady bonds. They are held for numerous reasons. Brady bonds can be bought as reserve investment from the BNB in the same way the bank has invested in numerous bonds from other countries. With this operation, the bonds are within the country and the budget will not be burdened with interest payments. The government can repurchase part of the debt, too, since that would decrease the burden on the national budget. Last, but not least, Bulgarian Brady bonds might be used as a form of payment in the privatization process.

According to data from the BNB and the Ministry of Finance (MF), the payments on Bulgarian external debt in 2002 were $992.3 million; that is, $593.4 million on principals, and $399.9 million on interest. The majority of those payments are through Brady bonds.

Up to the end of January, 2002, Bulgaria had to pay around $180 million on its external debt. The holders of Bulgarian Brady bonds receive almost $131.2 million. On January 28, 2002, they received their interest payment, and in July the holders of IABs also received $16.1 million on the principal of these bonds. On July 28, 2002, the government made the first of the negotiated 21 payments, each totaling the amount of $73.3 million, on FLIRBs. LIBOR dropped 1.6 points at the end of July compared to the end of January 2001. Since this is the base for the interest payments of the Bulgarian Brady bonds, the interest payments on the Brady bonds in 2002 were significantly relieved (they are determined from LIBOR on the date of the previous interest payment).

**Global Changes in Brady Bonds**

Meanwhile, there have been significant changes in these financial instruments at the international level. According to the International Institute for Finance, the market volume of Brady bonds decreased from $121.4 billion in 1998 to $83 billion at the end of 2000.
The developing countries from Latin America gradually exchange Brady bonds with global bonds. They are denominated in US Dollars, Euro, and Yen. Brazil and Argentina already underwent such an operation. Nicholas Brady himself declares, “The transformation of Brady bonds into normal credit bonds is the end of ten years of transition. Many developing countries are past the stage of restructuring their bad external debt, and now they are valuable participants in the global economy. That is definitely a sign of success,” Brady concludes.

Debt transformation has its advantages since it can space out the debt payments. There are lower interest rates on the new loan, as well. At the same time, capital necessary for collateral is freed up. Last, but not least, transformation creates a new credit profile for the new economies. They move away from the image of a country that has restructured its foreign debt with the Brady plan.

**The Bulgarian Foreign Debt Swap**

Significant payments are expected on the external debt in Bulgaria in the period between 2001 and 2004. Naturally, that will affect the budget and the payment balance. In 1999 and 2000, our country paid $880 million on principals and interest; in 2001, the amount increased significantly to $1.3 billion, and in 2002 it was around $1.05 billion.

Reasons for the noteworthy increase in the payments on Bulgarian external debt are the due dates for the stand-by agreements with IMF, loans from the World Bank and the European Union, and the beginning of payments on the principals of the Brady bonds. The latter dictates two options: repurchase of part of the bonds, or trade them in to get another kind of credit financial instrument.

According to the Ministry of Finance, on December 31, 2001 the nominal amount of Brady bonds was $4,759 million. That represents 56.2% of the Bulgarian external debt.

The “Repurchase” option is unfavorable because of the high price of Brady bonds. The market value of FLIRBs is around 70 cents to the dollar. IABs are in the 77 – 78 cents range to the dollar. DISCs trade for 80 cents.

DISCs are the most important bonds for Bulgaria, since their principal is guaranteed with 30-year American Treasury Bonds. If the “buy back” option is chosen, Bulgaria must buy DISCs because that will free up collateral that can be sold. The market value for the American bonds is ¼ of the nominal (25 – 26 cents to the dollar) value. Consequently, the Bulgarian government can save approximately $400 – 450 million. That amount can either cover the deficit on payment balance in the coming years or can be used to buy back more bonds.

Currently, the second option is not very probable because of the high price of Brady bonds. In 2000, the government bought back bonds for $200 million, and in 2001 only DISCs for $60 million. For that purpose, the Ministry of Finance took out a BGN144 million loan from BULBANK. Later, the situation on the international financial markets changed. In the middle of January 2002, DISCs were $86.5 – $87.7 for 100 US dollars nominal, and the price of the collateral dropped to $26 for $100 nominal. Consequently, the price of the “repurchase” option increased to $60 for $100 nominal, which is far less favorable for Bulgaria. Furthermore, the government does not have redundant resources for operations like this. In the middle of January 2002, the fiscal reserve was $1.2 billion, which is more than sufficient for payments on the external debt, but is inadequate for buying back Brady bonds.

The second option was on the agenda as well: trading Brady bonds for global bonds. In March 2002, bonds were issued. Part of these bonds were denominated in Euros — 835 million Euros, with a due date of January 2013, at 7.5% interest and with annual payments every January. The other part is denominated in US dollars — $513 million, with a due date of January 2015 at an 8.25% interest rate. The payments are twice a year in January and July. The structure of the payments is same as that of the Brady bonds. The first payment was due in July 2002. It was declared to be a voluntary exchange. Bulgarian Brady bond holders of all kinds will be able to trade them...
The auction is open for a maximum of 24 hours and during this time investors must declare their intent to trade. A maximum price was determined for the exchange; 94 cents to the US Dollar nominal and 96 – 97 cents for the bonds in Euros. All accepted orders are executed at the same price, equal to the highest approved by the Ministry of Finance.

Intermediaries for the deal are JP Morgan and Salomon Smith Barney. The commission is 0.55% of the volume of the new issue plus $250,000 for legal services and organization of the auction. The commission for repurchase of Brady bonds is 0%. The average prices at which the Brady bonds will be exchanged are: 88.5 cents for IABs, 90.5 cents for FLIRBs and 90.5 cents for DISCs. The three types of Brady bonds have subcategories: DISCs and FLIRBs have two series - A and B, and IABs have one. So there are five options and investors can choose among three alternatives: US Dollar exchange, Euro-Exchange, or cash exchange. The deal managers received from investor orders for $2.6 billion Brady bonds to be traded for the new global bonds or sold as cash. There are two types of orders – competitive and non-competitive. The non-competitive orders are $1.12 billion. Competitive orders accepted for trade are around $207 million.

Competitive orders are only from the B series (DISCs and FLIRBs). An interesting characteristic of these two types is that the interest payments have an additional 0.5% above the normal interest, which is a 6-month LIBOR in US Dollars + 13/16. That’s the reason for the higher exchange price for these bonds.

### Market Reaction

The Bulgarian Brady bonds market reacted positively to the decision for debt exchange. The prices went up 1.5 points as follows:

- Up to 88.9 cents to the dollar for IABs;
- 91.5 cents to the dollar for FLIRBs; and
- 90.25 cents to the dollar for DISCs.

The higher the price of the Bulgarian Brady bonds before the exchange, the smaller the difference will be in the par values between the new issue and the traded volumes.

### Results from the operation

1. Brady bonds at a total value of $1.327 billion were traded. $348.7 million were IABs,
more than $376.5 million were FLIRBs, and a little less than $602 million were DISCs.

2. Non-competitive orders for the B series of the FLIRBs were slightly above $6.5 million, while the competitive orders were above $142 million. From the latter, orders for $132.4 million were approved. After the exchange, there were $6.2 million FLIRBs in circulation.

3. There were $65.3 million DISCs, series B, in circulation, while the nominal value before the exchange was above $142 million. For the A series DISCs, the competitive orders were $130 million and $50 million from them were for more than 95 cents to the US dollar nominal value.

4. There were more than $1 billion in circulation from the other types of Brady bonds.

5. Generally, Bulgarian investors traded Brady bonds for new ones for around $100 million. Officially there were eight Bulgarian banks, Pension Funds, and Financial Houses holding Bulgarian Brady bonds. However, this estimate is not exact because there are many Bulgarian institutions with accounts in foreign banks and these banks might have bought on behalf the banks.

Consequences:
The deal for optimization of the external debt can be viewed as unique in three aspects:

First – for first time, Brady bonds, which were always in US dollars, are being traded for bonds denominated in Euros. No country with this kind of problem has realized the deal in this way.

Second – the investors have the opportunity to show flexibility by choosing from among US dollar bonds, Euro bonds, sell for cash, or just buy new Eurobonds.

Third – the prices at which the deal was realized were low. That was the comment on the main stock exchanges in London and New York. The deal was realized at minimal prices and only non-competitive orders were accepted. The only exception were the so-called “small” bonds – series B DISCs and FLIRBs, where competitive orders were accepted, but the effective price for their purchase was still even lower.

Another positive effect is the net decrease of the external debt by $80 million.

In close relation with the latter is the increase in the fiscal reserve. This increase is due to the freed collateral on DISCs. According to the two-year agreement between Bulgaria and the IMF, the reserve must not go below BGN 1.9 billion and the result is positive in this aspect. The freed collateral cannot be used for purposes other than payments on the principal of the debt.

With this deal, part of the payments on Brady bonds that were due in the middle of 2002 was saved. Precisely because:

First – the bonds denominated in Euros have coupon payments in 2003. In January 2003 the gross external debt service was USD 263.0 million (1.5% of GDP), of which USD 116.8 million (44.4% of total payments) were principal payments and USD 146.2 million (55.6%) were interest payments. Public debt service came to USD 212.3 million (1.2% of GDP), of which USD 68.5 million (32.3%) were principal payments and USD 143.7 million (67.7%) were interest payments.

During the same month in 2002, the service of public debt was USD 176.7 million (USD
60.1 million were principal payments and USD 116.5 million were interest payments). The private sector debt service amounted to USD 50.8 million (0.3% of GDP), of which USD 48.3 million (95.1%) were principal payments and USD 2.5 million (4.9%) were interest payments. Private commercial bank debt service was USD 33.6 million against USD 24.3 million during the same month in 2002. The service of private non-financial sector debt was USD 17.1 million, compared to USD 25.9 million in the same month of 2002.

Second – payments on the IABs principal will be saved. Third – payments on the FLIRBs principal will be saved, which were scheduled to start in the middle of 2002.

**Net Annual Savings**

<table>
<thead>
<tr>
<th>Year</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>-50</td>
</tr>
<tr>
<td>2006</td>
<td>50</td>
</tr>
<tr>
<td>2010</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: MF and BNB

Savings are expected to reach between 6% and 9% of the nominal value of the deal.

A very important effect is the extension of debt maturity. The current payments are significantly reduced. In the next five years, they will be reduced by $400 million, and in nine years by around $670 million. The total reduction of the current payments up to 2024 will be around $1.25 billion.

According to some analysts, this period is too long. But Bulgaria has already bought American treasury bills for collateral on the IABs. Now, there are only interest payments every six months on them. Moreover, trading IABs has the following positive effect: as we mentioned earlier, IABs have a clause for a higher interest rate at the moment that the current GDP is 125% of the 1993 GDP. The additional interest rate will be half of the GDP percentage increase. In March 2002, GDP in US Dollars was at the same level as it was 1993, and it is expected that the 125% level will be achieved by 2006 – 2007. After that, for every 4% increase, we have to pay 2% on the bonds. The additional interest in 2007 will be around $35 million annually.

The deal has a positive effect on the budget too. It is better insured because the interest...
rates on the new issue are fixed. However, a large part of the debt is in US Dollars and this fact creates risks, since the budget is in Euros. As is seen from the picture, a significant part of the Bulgarian debt is still in USD. Thus, the government budget needs to be very careful in forecasting the USD/Euro exchange rate because the revenues for the budget are in BGN (BGN is pegged to the Euro under the Currency Board Arrangement). As is seen from the figure below, the USD has been gradually depreciating towards the Euro since the external debt swap in March 2002. There are fundamental reasons for the depreciation (the huge trade balance deficit in the USA, as well as the renewed tendency of running high budget deficits), but most of all it has been due to fears of the Iraq crisis outcome. In view of the Bulgarian swap, this trend diminishes some of the positive results of the deal. Bulgaria exchanged USD debt for Euro Debt and now the government must pay larger amounts (denominated in BGN). However, considering the time horizons for the deal (2013 and 2015), this can be viewed as a short-term loss. Since predictions of what the USD/Euro exchange rate will be are very difficult to make given the current global political situation (the war in Iraq), further assessment of the net benefits of the deal will be needed.

Finally, Standard & Poor’s gave the new bonds a B/B- rating. According to the agency, the main effects of the operation will be lowering the influence on the exchange rate of the US Dollar and the interest rates, and lower expenditures on the external debt payments in the next ten years. In order for this rating to be increased, it is necessary “to continue the structural reforms in combination with stable and prudent fiscal policy.” The IMF supported the deal, as well. The IMF, as is well known, does not accept any radical changes, especially if there are any risks for the budget. Thus, the IMF’s consent with the operation has a significant value. In October 2002, the overall rating of Bulgaria increased to B/B+ according to Standard & Poor’s, Moody’s and JPY.

Continuation of the Exchange of the Debt

In the first three months of 2002, the gross external debt of Bulgaria decreased by 2.1% to $10.398 billion and this represents 73.4% of the GDP. In the first three months of 2002, $394.8 million was paid, which was 2.8% of the external debt.

6 The BNB changed the methodology by which the external debt is calculated. According to the change, external obligations of Bulgarian entities on commercial credits for less than a year are included in the debt. The newly calculated debt in January 2002 was $10.41 billion and in February 2002 it was $10.37 billion. “Capital” May 18 – 23 2002, p.21

7 On March 31, 2002, 47.4% of the gross external debt is in treasury bills, 44.1% are loans, 7% - commercial credits and 1.4% - non-resident deposits. 64.1% of the debt is denominated in USD, 21.3% in Euro and 11.1% in Special Drawing Rights (SDRs) – “Monitor”, 05.16.2002
GDP. The expenditure on principals was $248 million, and for interests it was $146.9 according to BNB.

In July 2002, the Treasury department made the first interest payments on the new global bonds, denominated in US Dollars, which are due in 2015 and have coupon payments of 8.25% annually. The amount is around $15 million.

Bulgaria does not exist in isolation. It is in close relationship and mutual dependence with other countries. Thus, the main forces behind the Bulgarian external debt are events on the market of countries in the same position. The economic condition of the developed countries is of important consequence, too.

The American economy was not able to recover before the end of the year because of the events of September 11th. The six-month LIBOR went down from 3.5 to 1.97 percent, and more than 70% of our external debt payments are pegged to it. Because of the interest rate drop, Bulgaria saved more than $200 million, and instead of planned $1.25 billion payments in 2001, it paid around $1.05 billion.

The interest rate decline on international markets (the events on international markets, recession in the US, the war in Afghanistan) brought a significant increase in the prices of US Dollar bonds with fixed interest (those are the type of Bulgarian global bonds due in 2015). In March 2002, they were issued at a price a little under 94 cents to the dollar, but five months after that, the price rose to above 104 cents to the dollar. During the same period, the prices of old Brady bonds were almost the same. Thus, the difference in market value of the new and old debt reached 10 – 12%. The Bulgarian government took advantage of this situation and decided to further reduce the external debt with another swap, since for these Brady bonds the investors will be given 10 – 12% less global bonds.

Because of that, in September, 2002 the Parliament passed a law for the second operation on external debt, according to which, investors will be able to get new global bonds at a fixed amount, denominated only in US Dollars because of the better market conditions. The interest rate is again 8.25%, due on January 15, 2015. In reality, this is not a new swap, but a continuation of the first one from March 2002. The intermediaries are the same as before. There was a road show of presentations of the issue in London, New York, and Boston. The operation ended on September 26, 2002.

After declaration of the deal, the price of Bulgarian Brady bonds increased by one cent on average. Generally, in the last five months, demand for Bulgarian US Dollar global bonds is higher than supply. This fact is due to the limited volume of the issue. Moreover, the managers of the first deal were able to place a larger number of these bonds in American funds, which prefer to keep them in their investment portfolio for long-run returns. The main reason for the higher interest, though, is the very low yield on American treasury bills, which are the benchmark for the Bulgarian bonds. The price of Bulgarian USD debt also increased because of problems in Brazil, as well as the lack of capital in Latin America.

Thus, investors were obliged to redirect their capital towards financial and debt instruments from Eastern European countries. It is supposed that the interest towards new exchange will be high because most of the investors prefer normal debt instruments to Brady bonds.

**Motives for the second deal of external debt swap**

**Before anything** Bulgaria will postpone payments of principals on IABs and FLIRBs, since the new global bonds do not amortize. There is a one-time principal payment due on the due date. This will save budget funds for debt payments until 2015. According to the Ministry of Finance, the average weighted duration

![Bulgarian Dept Maturity (as of December 2002)](chart.png)

Source: Ministry of Finance
of the debt will increase by 2.9 years. With DISCs, there are no savings from amortization because the principal payment can be pushed forward – to 2015 instead of 2024, and the effect here will be liberation of a significant amount of collateral.

**Second** – the trade will reduce that part of the debt that is connected with floating interest rates, and it is around 70%. That means an increase in expenditure if there is an increase in interest rates on the international markets. On this basis, the larger part of the debt could be transferred to fixed interest rates. The conditions right now are favorable because American Treasury bills are at a very low interest of around 4%. Because of this, the nominal yield on Bulgarian USD bonds due in 2015 will reach 7.8%. In the case of long-term resources, this is a very good price because there is no risk premium. It is not necessary that the expenditures will be lower, but the transformation to bonds with fixed interest will help debt payments. They will be less risk-prone and easier to forecast. There will be no need for large reserves in the budget as insurance in case of a sudden increase in floating rates.

**Third** – Bulgaria will benefit from the fact that Brady bonds will no longer be the basis for calculation of country risk. The new USD issue will be used as a benchmark, which is at a low risk premium. This will have a positive effect on the economy because all foreign financing will become cheaper. Furthermore, all companies to be privatized will receive higher value estimates because Brady bonds will be eliminated as a factor for the economic activity of Bulgaria.

**Fourth** – the Bulgarian credit rating is expected to increase because of a better debt-GDP ratio. The deal improved the Debt/GDP ratio of Bulgaria, which is one of the Maastricht criteria and is, thus, a crucial variable in the process of EU integration.

**Fifth** – collateral which will be used in the fiscal reserve will be liberated. This will reinforce Bulgarian independence from the official creditors (e.g., no need for loans from the IMF and the World Bank). The increased liquidity will allow cheaper refinancing from the market if necessary.

**Sixth** – risks from higher interest payments are very important throughout the years, as well as the accumulation of large amounts of principals in 2015. If LIBOR keeps rates low for the next few years, Bulgaria will lose because it will pay higher interests on the new bonds compared to those which it would have paid on the Brady bonds.

On the other hand, in situations like that, interest rate swapping is possible and the fixed rate on the new bonds can be exchanged with a floated one again. The second risk is connected with economic growth and the...
ability to meet large payments on principals in 2013 and 2015. If the forecasts for doubling the GDP are not realized, Bulgaria might be in a very difficult situation.

**Results from the second deal of external debt swap**

1. Bulgaria exchanged Brady bonds at a total nominal value of $866 million for new bonds at a nominal value of $759 million.
2. With the second Brady operation, the debt in circulation decreased by $866 million and from $3.447 billion reached a nominal value of $2.581 billion.
3. Collateral for $135 million was liberated8.
4. FLIRBs, B series, are the least in circulation. After the first operation there was $6.2 million nominal value left, and with the second operation that amount decreased by $5 million.
5. There are $25 million DISCs, series B, in circulation, while, after the March operation, there were $65.2 million left.
6. Three types of bonds – FLIRBs, series A, and DISCs, series A and B – were traded at prices above the minimal price (see Table 2).

The reason for the higher price is an additional premium of 0.5% above the contracted interest rate. With DISCs, B series, the higher price is a result of the government intention to collect a larger volume. With series A, the government wants to trade at the maximum amount in order to liberate collateral. Furthermore, there is a clause for these bonds, demanding higher interest rates depending on the increase of GDP.

**Final Conclusions**

Although there were numerous difficulties, the deals for Bulgarian external debt exchange improved certain economic indicators. Bulgaria decreased to a certain extent its dependence on international financial institutions. Consequently, at the annual meeting of the IMF and the World Bank in September 2002, the Bulgarian government suggested transforming the current agreement into a “precautionary” agreement. This means that Bulgaria will still receive money, but that money will only be used if necessary. For example, in a case of foreign crisis, this assures the creditors that internal causes are not the reason for the money-supply depletion.

At their meeting in April 2002, the Finance Ministers of the G-7 their declared support for economic development and the fight against poverty. They further specified that they will increase financing only if beneficiaries implement “sound economic policies.” For Bulgaria, this line is very clear – to successfully realize structural reform and this is the main reason for a higher GDP, lower inflation, lower unemployment, and higher living standards.

**References**


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8 American Treasury Bills, held as collateral for the principal and interest payments on DISCs. When the operation was executed, the price of the collateral increased 4 cents compared to the price before. Then it was around 31 cents for USD 1 nominal.

<table>
<thead>
<tr>
<th>Type of bond</th>
<th>Offered for trade (in millions USD)</th>
<th>Minimal price</th>
<th>Accepted volume for trade (millions USD)</th>
<th>Trade price</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAB</td>
<td>310.2</td>
<td>89.125</td>
<td>233.2</td>
<td>89.125</td>
</tr>
<tr>
<td>FLIRB A</td>
<td>366.5</td>
<td>91.375</td>
<td>308.1</td>
<td>91.375</td>
</tr>
<tr>
<td>FLIRB B</td>
<td>5.2</td>
<td>91.375</td>
<td>5.2</td>
<td>92.350</td>
</tr>
<tr>
<td>DISC A</td>
<td>388.2</td>
<td>91.000</td>
<td>301.6</td>
<td>92.000</td>
</tr>
<tr>
<td>DISC B</td>
<td>43.7</td>
<td>91.000</td>
<td>40.2</td>
<td>94.500</td>
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</tbody>
</table>

Table 2

Appendix 1
Gross External Debt Service 2002

<table>
<thead>
<tr>
<th>BY CREDITORS 1/</th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>January - October</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Total</td>
<td>Principal</td>
</tr>
<tr>
<td>Gross External Debt (A + B) 2/</td>
<td>303.7</td>
<td>148.6</td>
<td>452.3</td>
<td>619.2</td>
</tr>
<tr>
<td>A. LONG-TERM DEBT</td>
<td>203.6</td>
<td>147.9</td>
<td>351.5</td>
<td>610.7</td>
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<tr>
<td>I. OFFICIAL CREDITORS</td>
<td>128.3</td>
<td>30.6</td>
<td>158.9</td>
<td>163.7</td>
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<tr>
<td>1. International financial institutions</td>
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<td>28.1</td>
<td>126.7</td>
<td>99.7</td>
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<td>IMF</td>
<td>68.1</td>
<td>7.8</td>
<td>75.8</td>
<td>81.5</td>
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<td>World Bank 3/</td>
<td>15.1</td>
<td>8.1</td>
<td>23.2</td>
<td>5.7</td>
</tr>
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<td>European Union</td>
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<td>4.0</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>15.5</td>
<td>8.3</td>
<td>23.7</td>
<td>12.5</td>
</tr>
<tr>
<td>2. Bilateral credit</td>
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<td>2.5</td>
<td>32.2</td>
<td>64.0</td>
</tr>
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<td>Paris Club</td>
<td>26.2</td>
<td>1.6</td>
<td>27.8</td>
<td>64.0</td>
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<tr>
<td>Other</td>
<td>3.5</td>
<td>0.9</td>
<td>4.5</td>
<td>0.0</td>
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<tr>
<td>II. PRIVATE CREDITORS</td>
<td>75.3</td>
<td>117.2</td>
<td>192.6</td>
<td>447.0</td>
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<td>1. Brady bonds 4/5/</td>
<td>27.4</td>
<td>110.9</td>
<td>138.3</td>
<td>325.9</td>
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<td>2. Other bonds 6/</td>
<td>28.1</td>
<td>0.6</td>
<td>28.8</td>
<td>68.0</td>
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<td>3. Commercial banks</td>
<td>3.3</td>
<td>1.3</td>
<td>4.6</td>
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<td>4. Companies 7/</td>
<td>16.5</td>
<td>4.4</td>
<td>20.9</td>
<td>30.1</td>
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<tr>
<td>B. SHORT-TERM DEBT 7/8/</td>
<td>100.1</td>
<td>0.7</td>
<td>100.8</td>
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<td>C. PAYMENTS OF REVOLVING CREDIT FOR BULGARIAN FIRMS</td>
<td>31.8</td>
<td>0.4</td>
<td>32.2</td>
<td>58.5</td>
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<td>D. NET CHANGE ON COMMERCIAL CREDIT ENGAGEMENTS 9/</td>
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<td>0.0</td>
<td>5.2</td>
<td>0.0</td>
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</table>

1/ Source: Ministry of Finance and Bulgarian National Bank
2/ Real payments. Data as of November 21, 2001. The USD equivalent is calculated by monthly-average exchange rate
3/ Includes payments on government and government-guaranteed credits
4/ Including the Brady bonds bought back in April
5/ Includes commercial banks payments
6/ Including sovereign guarantees
7/ As of December 31, 2001
8/ As of December 31, 2002
9/ As of December 31, 2003
**Appendix 2**

**Gross External Debt Service 2002**

<table>
<thead>
<tr>
<th></th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>January - October</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Total</td>
<td>Principal</td>
</tr>
<tr>
<td><strong>Total (A+B)</strong></td>
<td>303.7</td>
<td>148.6</td>
<td>452.3</td>
<td>619.2</td>
</tr>
<tr>
<td><strong>A. PUBLIC SECTOR</strong></td>
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<tr>
<td>(I+II+III+IV)</td>
<td>187.2</td>
<td>141.7</td>
<td>328.9</td>
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<td><strong>I. GOVERNMENT DEBT (I+2)</strong></td>
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<tr>
<td>1. Loans</td>
<td>102.1</td>
<td>24.1</td>
<td>126.2</td>
<td>136.8</td>
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<tr>
<td>2. Bonds</td>
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<td>110.9</td>
<td>127.0</td>
<td>313.8</td>
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<td><strong>II. GOVERNMENT GUARANTEED DEBT (2+3)</strong></td>
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<tr>
<td>1. Loans</td>
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<td>5.4</td>
<td>17.3</td>
<td>8.9</td>
</tr>
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<td><strong>III. BULGARIAN NATIONAL BANK (2+3)</strong></td>
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<tr>
<td>1. Loans</td>
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<td>5.4</td>
<td>17.3</td>
<td>8.9</td>
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<tr>
<td><strong>IV. OTHER DEBTORS</strong></td>
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<td>2.6</td>
<td>1.0</td>
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<td>Companies (1+2)</td>
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<td>0.1</td>
<td>1.7</td>
<td>5.8</td>
</tr>
<tr>
<td>1. Internal loans</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2. Other loans</td>
<td>1.6</td>
<td>0.1</td>
<td>1.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Other</td>
<td>39.1</td>
<td>0.6</td>
<td>39.7</td>
<td>59.0</td>
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<td><strong>B. PRIVATE SECTOR</strong></td>
<td>116.5</td>
<td>6.9</td>
<td>123.5</td>
<td>59.3</td>
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<tr>
<td>(I+II)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I. COMMERCIAL BANKS (1+2+3)</strong></td>
<td>58.3</td>
<td>1.3</td>
<td>59.6</td>
<td>28.0</td>
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<tr>
<td>1. Internal loans</td>
<td>2.8</td>
<td>0.9</td>
<td>3.7</td>
<td>11.9</td>
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<td>2. Other loans</td>
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<td>0.3</td>
<td>1.1</td>
<td>7.5</td>
</tr>
<tr>
<td>3. Non-resident deposits</td>
<td>54.8</td>
<td>0.0</td>
<td>54.8</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>II. COMPANIES (1+2)</strong></td>
<td>58.2</td>
<td>5.7</td>
<td>63.9</td>
<td>31.3</td>
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<td>1.3</td>
<td>48.8</td>
<td>14.9</td>
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<tr>
<td>2. Other loans</td>
<td>10.7</td>
<td>4.3</td>
<td>15.1</td>
<td>16.4</td>
</tr>
</tbody>
</table>

1/ Real payments. Data as of November 21, 2001. The USD equivalent is calculated by monthly-average exchange rate
2/ Source: Ministry of Finance and Bulgarian National Bank
3/ Including IMF credits
4/ Including the Brady bonds bought back in April
5/ According to the international statistics methodology for external debt, the BNB includes the government-guaranteed loans of budget and non-budget companies in the amount of government-guaranteed debt
6/ Source; Commercial banks
Tax Administration and E-government: a Case of Slovenia

Mitja Dečman, Maja Klun *

Abstract
One of the major goals of public sector reform is improving the efficiency and effectiveness of public service provision. The tax administration, as part of the public sector, must face the same goal. One way to improve efficiency and effectiveness is computerisation and a transfer to information-based operations. Information technology support can be created for several services provided by tax administration, such as completing tax returns, information services and counselling, etc.

The paper presents the results of research into the state of the Slovenian tax administration and efforts to introduce electronic commerce. The Slovenian tax administration has already prepared several projects to introduce electronic commerce to the tax administration. Some of them are already finished but the average level of e-tax services is still behind the European average for these services. Many of the obstacles reflect the general state of in Slovenia’s progress towards the information society and reports from other countries suggest that developments in Europe in this field are somewhat similar. The paper presents the state of e-tax services in Slovenia and is based on methodology developed within the eEurope project and the 17th e-government indicator it uses as a comparative method of measuring levels of electronic services in the EU-15 and candidate countries. The four level scale used as the benchmark model for 20 selected e-government services shows the achievements a country has made in implementing electronic services in public administration.

We also conducted a survey of personal income taxpayers to get their view on e-tax administration. Taxpayers in most cases support this development of the tax administration. The findings of our survey will be presented together with the results of other research into taxpayers’ views on electronic communication with tax administration.

Introduction
As may be seen from everyday experience, the industrial society is transforming into the information society and governments, as a part of society that plays a leading role, are an example of this. However, governments are not usually as progressive in IT (information technology) as the private sector, which is much more advanced due to constant private sector competition to achieve better, cheaper and more effective products. But that also means that governments could learn from the experiences of private companies, adapting what they learn to their own situation, as there are numerous differences between government and with the private sector.

Today IT is a vital considerable factor in a country’s development and its government and administration. IT also has an important role in tax administration. Many countries have set strict IT goals for getting their entire administration on-line by a certain date, though some will have a hard time achieving that goal. The countries that lag behind must do their very best to catch up with more developed countries and while doing that try to learn as much as possible from the examples around them.

Slovenia is part of the group of countries that set its e-government on-line deadline for the end of 2004 (GCI, 2001). It prepared a strategy with a large number of goals, many of which relate to the tax administration. The plan was for the government to develop a central tax register, enable on-line payment of taxes, fines and other claims originating from different on-line administrative services.

One of the first general steps was the implementation of a Public Key Infrastructure to enable the use of digital certificates for all online services offered by the government. With
these digital certificates, citizens and companies would be able to authenticate themselves and create digital signatures for communicating with the government and using on-line services offered.

To become more citizen-friendly the Slovenian government planned an e-government strategy including a web portal to provide citizens with all services in one place. The planned portal would have a uniform design, structure and contain all the data the user would need. The idea was that users not only have access to as much information as possible but can start and finish the different processes and services they need. For example, a user would go to a web portal, find the e-income tax form, fill in the data, sign it, send it to tax administration and later receive a response.

**Tax system in Slovenia**

The overhaul of the tax system initiated after Slovenian independence in 1991 was more or less completed with the introduction of value added tax and excise duties in 1999. The emerging system (with the exemption of property tax which is currently under assessment and will probably be concluded in 2004) is similar in structure to standard tax systems in OECD member countries. The tax system is currently undergoing reforms aimed primarily at closing existing tax loopholes and finalising its harmonisation with EU tax systems. At the end of 2002 corporate income tax was amended (decreases in some deductions) and in 2003 changes in personal income tax will probably be adopted by Parliament (broader tax base and changes in deductions).

All taxes are collected by the Tax Administration of the Republic of Slovenia, except for customs duties, excise duties and value added tax on imports, which are collected by the Customs Administration of the Republic of Slovenia. Slightly more than one third of tax revenue is collected from taxes on goods and services (especially VAT and excise duties), another third is collected from social security contributions, and the last third is collected from other taxes (mostly from personal income tax and corporate income tax). The tax structure in 2001 is presented in Table 1.

### Table 1: Tax structure in 2001 expressed in percentage

<table>
<thead>
<tr>
<th>Tax Revenues</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax and corporate income tax</td>
<td>19.9</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>34.5</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>4.6</td>
</tr>
<tr>
<td>Property tax</td>
<td>1.8</td>
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<tr>
<td>Taxes on goods and services (VAT + excises)</td>
<td>37.4</td>
</tr>
<tr>
<td>Other taxes</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Ministry of Finance, 2001

**Obstacles on the path to e-tax administration**

The foundation of good e-business is a good infrastructure. The Slovenian plan is to expand the existing IT network and establish several virtual networks for different groups of users (e.g. customs, tax administration, courts and geodetic administration). The infrastructure set up would include integrated, horizontal data connectivity between these virtual networks and information systems for applications that require data from the databases of other information systems. For example, courts use the land register and need data from cadastral register maintained by the geodetic administration so electronic data exchange between these two systems should be enabled.

In a world of IT and networks like the Internet, the flow of information, requisite employee capabilities, and workforce costs are very different to those in the world of Weber’s bureaucracy and vertical hierarchy (Senevirante, 1999). Reorganisation is therefore an important part of implementing e-business. With the rapid development of the internet and the e-government concept at the end of the 1990s, some authors (Snellen, 2000; Frissen, 1998) began claiming that IT implementation, especially internet technologies, would massively change the organisational structure and hence lead to a the more efficient use of IT. The Slovenian tax administration was reorganised in 1996. Since the administration was already
familiar with IT, it had a direct influence on the reorganisation.

The Slovenian government noticed that different agencies within the public administration were not accessible to other agencies via IT channels, which would lead to problems for future development considering quality services and IT solutions were designed for more than a single agency. They built IT solutions that were not integrated or capable of connecting with other information systems. This would not have happened if they had followed European information society trends, where IT solutions are designed for other administrations, private sector and citizens as well.

Because of the rapid growth in IT use, existing solutions are barely sufficient or are actually insufficient to meet all the demands placed on them (the tax administration is one such example in Slovenia). The lack of scalability is significant here. They therefore require upgrading and extension. There is no funding planned for many of these actions. Failure to invest in enhancing capacity can affect critical information systems and lead to user dissatisfaction (employees of tax administration, companies, and of course taxpayers).

**Tax administration in Europe from the IT point of view**

The EU-15, central, and eastern European countries have developed different information systems for tax administration use. In order to measure and compare them, the EU developed a monitoring system to benchmark national performances linked to specific action lines. The eEurope programme (an extended variation of this action plan, eEurope+, was drawn up to include the candidate countries) was developed at the Lisbon European Council in March 2000. Its aim is to bring the benefits of the information society to all Europeans and make the European Union the most dynamic knowledge-based economy in the world by 2010. This programme introduced a monitoring system based on a list of 23 indicators where it was considered that e-government services were used by citizens and businesses. One of these indicators, the percentage of basic e-government services on-line, includes the ranking of 20 public services, twelve aimed at individual citizens and eight aimed at businesses. Based on these rules, Stage 1 is known as the information level (0 – 25%), Stage 2 interaction level (25 – 50%), Stage 3...
two-way interaction (60 – 75%) and Stage 4 transaction level (75 – 100%).

As we can see from Figure 1 showing average measurements for EU countries, the three indicators covering different tax services (personal income tax, VAT and corporate tax) were among the best implemented of all the twenty (Kerschot, Poté, 2001). It also shows different levels for EU countries, measured at two different times. The first measurement was made in October 2001 and the second in April 2002. We can easily see some improvements in electronic services in the tax fields in some countries. The exact methodology of the whole ranking system is still under development although it was greatly improved for the second measurement. The scores gathered from different countries may therefore still represent different levels of development.

Slovenia, as a participant in the eEurope+ programme, ascertained that its service levels are:

- **Around 25% for income tax for citizens.** Taxpayers obtain information on the web pages, and special forms are also available as Microsoft Excel files. They can fill in the data, print it and then send back to tax administration. The other section concerns companies that have to send their data for the purposes of comparison with individual citizens’ data. The data format to be sent to the tax administration is publicly known and the accounting software developers implement a special export function for income tax in their applications. Data is exported in files onto floppy disks and sent to the tax office. This, however, is not measured within the eEurope ranking system.
• **25% for VAT.** Only information is available on web pages, while data is sent in paper form.

• **50% for corporate tax.** Information is available on web pages, where companies can download special applications that they use to put their data into a specific format and export it to a floppy disk file which is then sent back to the tax administration.

• Although the exact ranking for eEurope (and eEurope+) is still under development, the first results give a hint of the differences between EU countries and Slovenia as well as between countries within the EU-15.

### Past development, existing information systems and the development strategy of the Slovenian e-tax administration in Slovenia for the future

Providing tax assistance through computerised means is determined by the scope of information technology available to an administration. All tax administration offices are connected by intranet, all users have an e-mail address and basic applications are uniform. They have a central web and mail server and centralized IT management and support. The previous system included five information systems, supporting 162 transaction databases. All five systems were unconnected; therefore analytical support of tax system was not developed. The tax administration became aware of this problem and started to develop an integrated tax information system in 2000, called IDIS. The bases for the new system are the central tax register (CTR) established in 1997, the VAT support system, the basic infrastructure and the computer centre established in 1999. Most of the future systems will be built by the tax administration computer centre, but some operational systems will be outsourced to the private sector (Slovenian Tax Administration Annual Report 2000). In 2001 the tax administration renovated support systems for VAT and developed the register of pension plans. It also started to develop an application for providing help to taxpayers and the system for international exchange of tax information.

When informative tools are directly available to taxpayers and include all accessible means for taxpayers to consult and interact with the administration as well, then we can talk about e-tax administration. Developments in this area in several countries have helped to streamline the entire process of filing tax returns and to improve relations between taxpayers and the tax administration. Electronic connection with tax administrations is now possible in several countries: for example in Brazil, Portugal, Netherlands, Spain, United States and Canada (Rains et al., 1997). The Slovenian tax administration has not yet implemented electronic commerce with taxpayers. Taxpayers can file their tax returns on floppy disks in some cases, and tax administration has its own web page, but that is all. The web pages were radically changed at the beginning of 2002 and quite well developed after that. They are comparable to web pages of the more developed tax administrations in other countries. The main web page is only available in the Slovene language and includes almost all common information for taxpayers. Taxpayers can find all necessary legislation, tax forms and information about main tax procedures. The web page includes: a register of VAT taxpayers, public tenders by tax administration, duties and rights of taxpayers, phone numbers, laws on the amounts necessary to calculate tax obligations, short presentations on some taxes, and an introduction to the tax administration (its duties, organization, working hours and annual report). It also offers links to other useful web pages. Despite this, taxpayers would benefit from a FAQ (frequently asked questions) where they could find information without sending a question to the tax administration. It would also be a good idea to include some of the information in at least one foreign language.

The tax system and tax administration are still in the development phase and foreign e-commerce experiences could be useful. Nevertheless, foreign experiences should be modified and prepared for the situation in Slovenia. If the tax administration wants to implement electronic commerce it should invite all external institutions to cooperate, especially banks, tax advisors, technical experts, and most of all taxpayers themselves.
Within the tax administration, we can identify at least three major fields where efficient electronic commerce can be implemented. These fields are: filing tax returns, paying tax obligations and counselling for taxpayers. For the last two years the Slovenian tax administration has tried to establish electronic filing but public tenders to find a supplier were unsuccessful on three occasions. The first tender (October 2001) failed due to the Slovenian revision committee invalidating the tender because the tax administration violated the provisions of the Public Procurement Act. The second (April 2002) failed because of the five bids submitted, only one was in accordance with the Public Procurement Act. The latest one (August 2002) was stopped because of a complaint from unselected bidders about unfair selection, so the project is yet to be begun.

In its Strategic Plan for 2000 and 2003, the tax administration set out some general goals for the introduction of electronic commerce to tax administration. The proposal anticipates electronic filing, assessment and payment of tax obligations will reach (Jevševar, 1999):

- 75% of large taxpayers and tax agents;
- 50% of medium-sized companies;
- 25% of small-sized companies;
- electronic filing of tax returns will be used by 25% of personal income taxpayers;
- electronic support for different services and information delivery will reach 50% of all taxpayers.

Despite all the positive effects this development promises, the tax administration is aware of possible obstacles to developing an e-tax administration, particularly the lack of financial and human resources, taxpayer distrust and an underdeveloped system of tax advisory services consultancy.

**Taxpayers’ views**

The internet is a phenomenon gathering a rapidly increasing number of users. Slovenia is no exception to this trend. According to research from February 2002, 28 percent of active inhabitants of Slovenia use the internet on a monthly basis. Three years before, in 1998, the proportion was nine per cent (RIS, 2002). Despite rapid growth in the number of internet users, Slovenia is still below the European average of internet users, which is 31 percent of the active population.

In March 2001 we conducted a survey of 350 personal income taxpayers, with 226 personal income taxpayers responding to our questionnaire (a response rate of 64%) – they represent 0.02 percent of all personal income taxpayers in Slovenia. Thirty-three percent of respondents were men and 69.5 percent of respondents were between 25 and 45 years old.

One of the purposes of the survey was to discover taxpayer attitudes to e-communication with the tax administration, especially whether they would be willing to file a tax return using the internet. Almost half of the respondents (48.6%) said they would use the internet to file their tax return when the tax administration made this possible (Klun, 2002). At the same time 76.6 percent of taxpayers agreed that the tax administration does not assess taxpayers’ returns quickly enough. Taxpayers also stated that the tax administration’s advice service for taxpayers is not efficient enough.

According to a survey conducted among businessmen in Slovenia in March 2001, 79 percent of respondents stated that they would file their personal income tax return via the internet (Vozel, 2001).

We can conclude that Slovenian taxpayers are willing to accept changes in filing tax returns through a computerised system. Improvements in the field of e-tax administration will reduce costs and time spent by taxpayers and the tax administration on filing tax returns and tax assessment. The result will be the greater efficiency and effectiveness of the tax administration.

**The future of the Slovenian tax administration**

One of the biggest steps towards the future of modern e-tax administration is a project that is just about to start in Slovenia. The development of the new on-line system will be outsourced by public tender to an IT company in Slovenia. It will be based on the current Public Key Infrastructure, which was built on the legal bases of Slovenian Electronic Commerce and Electronic Signature Act.
The tax administration is beginning a project to create a new information system that will achieve the following goals:

- secure communication via the internet between administration and taxpayers; lower costs;
- stimulate taxpayers to use electronic channels for data submission and utilise these channels for full data exchange with the tax administration;
- increase the number and quality of services with 24/7 “working hours”;
- enable system connectivity with similar systems (in EU countries) and become an equal partner in international transactions;
- decrease the routine work of employees and increase their satisfaction and time to do more demanding work.

References

## Information for Contributors

The *Occasional Papers* are devoted to public administration and public policy issues based on empirical research carried out in Central and Eastern Europe.

**Papers**

Decisions about the publication of a manuscript are based on the recommendation of the main editor and an additional review process conducted by two appropriate specialists from a relevant field. The main editor and/or deputy editor selects these specialists. Submissions should not have been published previously and should not be under consideration for publication elsewhere. Papers presented at a professional conference qualify for consideration. The submission of manuscripts that have undergone substantial revision after having been presented at a professional meeting is encouraged.

### Components of a Policy Paper

**Presentation of the Issue**

What is the problem that requires action?

**Scope of the Problem**

What is the history and current context of the issue? How did it become an issue? Who is affected and how severely?

**Consultations**

What are the views or positions of groups who will be significantly affected? What are the concerns of other ministries/agencies who will be affected?

**Options for Consideration**

What three or four distinct options should be considered? What are their implications? What are their advantages and disadvantages?

**Additional Issues:**

Consistency with the government’s priorities; the effectiveness of available options in addressing the issue; the economic cost-benefit; the effects on taxpayers; the impact on the private sector; environmental impacts; the fiscal impact on the government; the disproportionate impact on various groups or regions; the complexity and timing of implementation; public perception; and constraints raised by legal, trade, or jurisdictional issues.

**Recommendation(s)**

What is the proposed course of action? Why was it chosen over other possibilities?

**Implementation Issues**

What are the financial impacts of the proposed course of action? What are the implications for government operations? Will the proposal require regulatory or legislative changes? What is the proposed means of evaluation?

**Communications Analysis**

What is the current public environment? What are the key issues of contention, and how can they be addressed? What is the position of key stakeholders, both inside and outside the government, on the proposal, and what communication vehicles should be used for each? How does the proposal relate to government reform priorities? What is the objective of communication on this issue? What is the key message?

**Structure of a Paper**

**Title**

The title should be a brief phrase adequately describing the content of the paper.

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### Abstract

An abstract is a summary of the information in a document. The abstract should not exceed 250 words. It should be designed to clearly define the contents of the paper. The abstract should: (i) state the principal objectives and scope of the research; (ii) describe the methodology employed; (iii) summarise results and findings; and (iv) state the principal conclusions. References to literature, bibliographic information, figures or tables should not be included in the abstract.

### Introduction

The introduction should supply sufficient background information on the topic and also provide the rationale for the present study. Suggested guidelines are as follows: (i) the introduction should first clearly present the nature and scope of the problem that was researched; (ii) it should provide an overview of the pertinent literature used; (iii) it should state the research methodology employed and, if necessary, the reasons for using a particular method; and (iv) the principal results of the investigation should be stated.

### Results

This section should contain an overall description of the topic and present data gathered during the research project. The manuscript should utilise representative data rather than repetitive information. Data that will be referenced several times in the text should be provided in tables or graphs. All data, repetitive or otherwise, should be meaningful. Results must be clearly and simply stated as the section comprises innovative research findings for an international community of academics and practitioners.

### Discussion

This section presents principles, relationships, and generalisations indicated by the researcher’s findings. This should not restate information present in the results section, but should: (i) point out any exceptions or lack of correlation; (ii) define unresolved issues; (iii) show how the results and interpretations agree (or contrast) with previously published work; (iv) discuss the theoretical implications of the work, and any possible practical applications; and (v) summarise the evidence for each conclusion. The primary purpose of the discussion section is to show the relationships among facts that have been observed during the course of research. The discussion section should end with a short summary or conclusion regarding the significance of the work.

### Acknowledgements

Assistance received from any individual who contributed significantly to the work or to the interpretation of the work and/or outside financial assistance, such as grants, contracts, or fellowships, must be acknowledged.

### References

Only significant, published references should be cited. References to unpublished data, papers in press, abstracts, theses, and other secondary materials should not be listed in the references section. If such a reference is essential, it may be added parenthetically or as a footnote in the text. Secondly, authors should verify all references against the original publication prior to submitting the manuscript. Stylistically, authors should utilise the in-text parenthetical reference system with complete references alphabetised at the end of the text.