

Economic Program

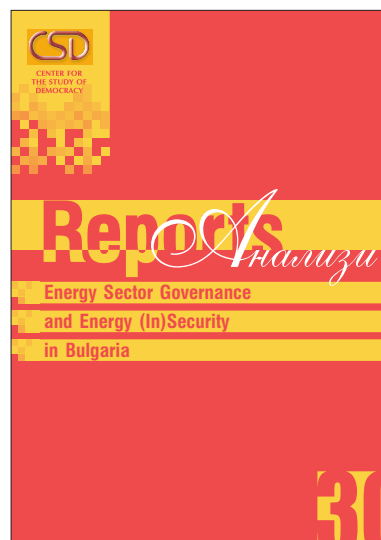
In 2014, the Economic Program focused its work on the following areas:

- **Energy security and sustainable development.** In 2014, CSD continued to provide the Bulgarian society and policy makers with valuable expertise and international best practice on the issues of energy security, energy poverty, energy efficiency and consumer electricity pricing through policy reports and briefs, media notes, and policy trackers. The report *Energy Sector Governance and Energy (In)Security in Bulgaria* presented the *Energy Security Risk Index* for Bulgaria and explored the major governance deficiencies and state capture risks in the Bulgarian energy policy. CSD started work on designing the best possible adaptation strategies of Bulgarian regions to the main 2050 EU scenarios on energy security.
- **Anti-corruption.** Since November 2012, CSD has coordinated the Southeast Europe Leadership for Development and Integrity initiative (SELDI) – the largest anti-corruption and good governance civil society coalition involving partners from nine countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Republic of Macedonia, Montenegro, Serbia and Turkey). In 2014, CSD published the SELDI regional anti-corruption report *Anti-Corruption Reloaded: Assessment of Southeast Europe*. The report summarises the data from the Corruption Monitoring System for the countries in the region for the period 2002 – 2014, incorporates the findings of nine national corruption assessment reports, and provides policy solutions for regional corruption challenges. In 2014, CSD published its tenth national Corruption Assessment Report for Bulgaria. CSD also participated in the delivery of the first EU Anti-Corruption Report 2014, providing input to the Bulgarian profile. CSD contributed to the establishment of the Macedonian Anti-Corruption Platform of CSOs, and provided technical assistance to the elaboration of the first Macedonian Corruption Assessment Report.
- **Hidden economy.** In 2014, CSD, in cooperation with the Sheffield University Management School (UK) and the Institute of Public Finance (Croatia) analysed and presented the various states of informality in Europe. CSD also joined efforts with the Center for Research and Policy Making (CRPM) to introduce evidence-based tools for monitoring and awareness-raising for tackling the hidden economy in Macedonia.
- **Competitiveness and the knowledge economy.** The Economic Program contributed to the development of the 2014 edition of the *IMD World Competitiveness Yearbook* and the annual assessment of the Bulgarian economy. The CSD team also supported the preparation of the *Innovation.bg 2014* report, which provides a reliable assessment of the innovation potential of the Bulgarian economy and the state and development capacity of the Bulgarian innovation system.

I. Energy security and sustainable development

The report *Energy Sector Governance and Energy (In)Security in Bulgaria* explores the major governance deficiencies in the Bulgarian energy policy regarding the strategic, institutional, and legal framework of the sector. The analysis focuses on state capture of energy policy by private political and economic interests that led to bad management practices in the sector, to lack of consistency in the legal and regulatory framework, to deteriorating investment environment, and to the involvement of the country in infrastructure projects that undermine the national long-term strategy and policy priorities. This has affected negatively the Bulgarian taxpayers and consumers, has jeopardised the financial stability of the state-owned energy companies, and, ultimately, has reduced the energy security of the country. The report recommends that the implementation of

the country's energy policy should be reconsidered and should be based on EU priorities and on sound cost-benefit analyses with regard to Bulgaria's energy security.



Energy Security in the Black Sea Region in the Wake of the Ukrainian Crisis round table, Washington D.C., USA

The Economic Program of the Center for the Study of Democracy continued to engage the media on the issue of energy security through the *Energy in(security): the parliament's decision on the South Stream pipeline increases the risks for Bulgaria's energy security* media note. It was published after the decision of the Bulgarian Parliament from 4 April 2014 to adopt at first reading the amendments in the Energy Law. These amendments granted South Stream gas pipeline special status which highlighted the lack of logic in the national energy policy and compounded the impression that public interest is not the driving force behind the proposed changes. The decision and the manner in which it was taken, reveal some of the most serious problems in Bulgaria's energy policy in terms of bad governance and corruption. The policy tracker *Key Challenges for Energy Efficiency Policies in the Domestic Sector* complemented the analysis of the topic

by pointing out that the Bulgarian economy is by far the most energy intensive in Europe. Furthermore, Bulgaria is highly dependent on other countries for its energy and therefore the economy – and in turn individual households are vulnerable to price changes. The tracker argues that a quarter of energy consumed in Bulgaria is used in the residential sector and if end users actively reduce the energy consumed, this would be the fastest and most cost-effective method of making further energy savings, and would also relate benefits such as lowered reliance on energy imports and lower fuel bills for consumers and businesses. A second CSD policy tracker *Economic Governance and Performance of the State-owned Energy Sector* noted that Bulgaria's energy sector is characterised by severe financial weaknesses related to high levels of indebtedness, low profitability and bad governance. The financial outlook of state-owned enterprises



Participants in the Energy (In)Security in Bulgaria: National Policy and European Perspectives policy forum, Sofia

has become increasingly problematic in the 2011 – 2013 period. An overview of the financial health of the largest energy companies reveals a desperate need for liquidity and a reform of the pricing method to abolish destabilizing subsidies, improve debt collection and the energy mix, and invest in the minimisation of power distribution losses.

Energy sector governance issues were discussed in a series of events. The *Energy Security in the Black Sea Region in the Wake of the Ukrainian Crisis* round table was co-hosted at the U.S. Chamber of Commerce in Washington, D.C. and took place on 10 June 2014. The former Prime Minister of Bulgaria Mr. Boyko Borisov was a keynote speaker at the roundtable. Other participants included U.S. businesspeople, representatives of embassies of Black Sea and Central and East European countries, Washington based policy institutes and academics.

Mr. Boyko Borisov emphasized different opportunities for effective tackling of the challenges of high energy poverty and energy import dependence in Bulgaria. He expressed his full support for the creation of the European Energy Union, noting that after the Ukrainian crisis EU leaders had realized the significance of the unified position on major energy sector issues such as the common gas price. Mr. Borisov noted that investment opportunities in Bulgaria are not limited to the energy sector and the untapped gas reserves, but include tourism, infrastructure, and agriculture among others. The Senior Manager for European Affairs at the U.S. Chamber of Commerce made remarks on the unexplored potential of the transatlantic commercial partnership. He underlined that the Chamber has been a staunch supporter of an ambitious and comprehensive Transatlantic Trade and Investment Partnership (TTIP) and noted that coop-



Energy Security and State Capture Risks international conference, Sofia



Mr. Michael Ruehle, Head of the Energy Security Section in the Emerging Security Challenges Division, NATO during the international conference: Energy Security and State Capture Risks in Europe, Sofia

eration is particularly needed in the energy area. The CSD experts highlighted the importance of the *International Index of Energy Security Risks (IIESR)* developed by the Institute for 21st Century Energy to quantify and expose the main vulnerabilities of the energy sector in Bulgaria and the Black Sea region countries. They also stressed that energy security vulnerabilities are particularly exacerbated in certain Central and East European countries including Bulgaria where growth and economic development have been impeded by high levels of energy poverty.

The capture of the state's energy policy by local private as well as foreign state interests is the major risk for the Bulgarian energy security. These issues were discussed at a policy forum *Energy (In)Security in Bulgaria: National Policy and European Perspectives* on 25 July 2014

in Sofia. The Economic Program experts presented the report *Energy Sector Governance and Energy (in) Security in Bulgaria* by summarizing Bulgaria's results in the *International Index of Energy Security Risk (IIESR)* developed by the Institute for 21st Century Energy at the U.S. Chamber of Commerce. According to the data, Bulgaria is facing the highest level of energy insecurity among all the 75 countries under review. Bulgaria's results suggest that despite the long-term trend towards decreasing energy security risks from the 1980s onwards, three major risks remain: low energy efficiency, high and volatile expenditures on fossil fuel imports, and high dependence on oil and gas imports. The participants noted examples for the lack of transparency in the governance of large energy projects such as South Stream, NPP Belene and the construction of a seventh unit in NPP Kozloduy.



Dr. Theresa Sabonis-Helf, Professor at the US National War College during the round table: Europe and Energy Security: The Coming Winter and Beyond, Sofia

Energy security risks for Southeast Europe and the Black Sea Region were discussed at the *Energy Security and State Capture Risks* international conference in cooperation with the *Southeast Leadership for Development and Integrity initiative (SELDI)*, NATO's Public Diplomacy Division, and DG Enlargement on 27 October 2014. The event served as a platform for discussion of the main problems of the common European energy security amidst the continuing conflict in eastern Ukraine and state capture as a specific security risk factor for the countries of Southeast Europe. The experts from the Center for the Study of Democracy highlighted the importance of emerging security threats and underlined that energy security remains one of the most acute risks for Central and Eastern Europe and the Black Sea regions. They noted that Russia has used

a mixture of corruption and geopolitical pressure to sway governments in the region, including those of some NATO members, to adopt policies that are not consistent with their national energy and security strategy, but benefit foreign private and state interests.

The participants also stressed the importance of the Energy Union initiative as a tool for guaranteeing uninterrupted energy resource imports on reasonable prices. Dr. Velizar Shalamanov, Minister of Defense of the Republic of Bulgaria, stressed the importance of energy security for preserving sovereignty and proceeded to explain that the dependence on foreign countries in any economic sector, whether it is energy or defense, undermines the countries' ability to manage the impact of supply disruptions. Mr. Michael Ruehle, Head of

the Energy Security Section at NATO's Emerging Security Challenges Division, commented that the Ukrainian crisis has shown the continuing importance of the Black Sea region in ensuring Europe's energy security. Mr. Ruehle stressed that NATO members have pledged to increase the alliance's role and competence in energy security issues, but reminded that it is still the prerogative of member-states to guarantee the security of their critical energy infrastructure including pipelines, oil and gas fields and refineries. Dr. Frank Umbach, Director of the European Centre for Energy and Resource Security, presented his report titled *Good Governance and the Example of the South Stream Gas Pipeline Project*. His presentation highlighted an interesting new trend of the decreasing importance of Russian gas for Europe's consumption profile by 2050. Dr. Theresa Sabonis-Helf, Professor at the US National War College, concluded the conference by noting that energy companies have the

responsibility to fulfill some of mankind's most basic needs, and that national and European authorities should not only consider the creation and implementation of rules, but should also follow through with specific actions against recurring violations of the law. She expressed her belief that policy-makers should include domestic exploration and efficiency gains in their toolbox for increasing energy security, and should not rely on populist rhetoric and short-term problem-solving initiatives.

The international conference on energy security and state capture risks was followed by a round table *Europe and Energy Security: The Coming Winter and Beyond*, organised by the CSD and held on 28 October 2014. Main speaker at the round table was Dr. Theresa Sabonis-Helf, Professor at the US National War College, who thoroughly discussed and analyzed the topic before the discussion that followed. The representatives of the



*Dr. Mikhail Krutihin, Senior Partner of the RusEnergy during the discussion
Future of Russia's Oil and Gas Policy, Sofia*

Center for the Study of Democracy compared the European and US approach to energy security issues and noted that while the US has been able to foster energy independence through unconventional energy resources, Europe has moved very slowly to develop its domestic resource potential.

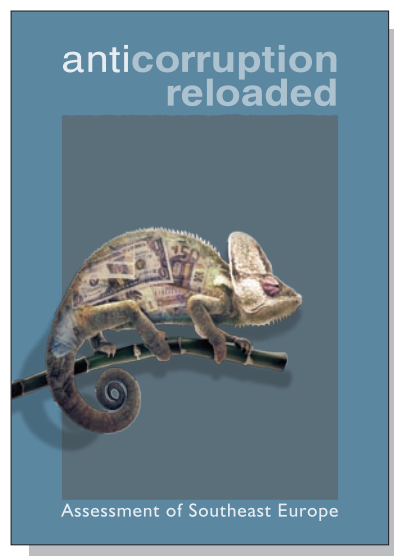
CSD invited Dr. Mikhail Krutikhin, Senior Partner at the RusEnergy Consultancy Agency, to give an in-depth presentation of the most recent trends in the management of the Russian hydrocarbon sector. During the discussion *The Present and the Future of Russia's Oil and Gas Policy*, held on 30 October 2014, Dr. Krutikhin underlined that the oil and gas sector is vital for the financial survival of the Russian economy. He stressed that for the last 14 years the government has disregarded the development of other economic areas, making the Russian economy inflexible to fluctuations in energy prices and market volatility. He pointed out the permanent existence of state capture practices in Russia's hydrocarbon sector and noted that the growing influence of few individuals in energy decision-making has led to major inefficiencies that have undermined the country's future economic development.

In 2014, CSD continued its research in the framework of the initiative Forward Looking Analysis of Grand Societal Challenges and Innovative Policies (FLAGSHIP) in Europe, through which it aims to enhance CSD's awareness raising and advocacy work. FLAGSHIP is an ambitious European research effort to which CSD contributes with its expertise in the application of innovative research methods (foresight, big data, elaboration of indexes, etc.) in the fields of energy policy, anti-corruption, and hidden economy. During the period 2013 – 2016, FLAGSHIP aims to analyse reference and alternative scenarios of

long-term demographic, legal, economic, social and political evolutions in Europe. The result of this forward looking exercise will be a set of policy recommendations for European institutions, as well as for all stakeholders striving to exploit the potential of transition and change for the future of the European Union.

II. Regional and international cooperation in anti-corruption

The overall effect of the anti-corruption policies was the key research and analytical focus of CSD's Economic Program in 2014.



Given the major significance of the corruption issue in the SEE region, CSD continued to contribute to promoting the civil society – state dialogue in identifying effective counter-measures. The *Southeast Europe Leadership for Development and Integrity (SELDI)* initiative, coordinated by CSD, organised the Regional Conference on *Good Governance and Anti-Corruption Policy Challenges* in Tirana, Albania on 13-14 November 2014. The event was hosted

in collaboration with the Regional Anti-Corruption Initiative (RAI), a member of SELDI. The countries from the region of Southeast Europe (SEE) discussed the main findings and lessons learnt from analyzing the corruption manifestations and applied national anti-corruption policies. CSD presented the *SELDI Regional Anti-Corruption Report*, which by summarizing the conclusions from the national analyses and the data from the sociological surveys carried out in nine countries, provides an assessment of the regional anti-corruption developments in SEE. The hosts at the Albanian Center for Economic Research (ACER) acknowledged the effort and dedication of the SELDI network during the past two years and highlighted the contribution of the Albanian government, which endorsed the initiative. The experts from the Center for the Study of Democracy provided a brief historical overview of the regional developments in the past decade, in particular high-

lighting the evolution of the civil society sector and its impact in the anti-corruption domain.

The elaboration and publication of the *Regional Anti-Corruption Report* was based on the two-year efforts of the SELDI members. The preliminary findings of nine surveys and the national *Corruption Assessment Reports* were discussed on 20 June 2014 during a policy advocacy workshop: *Improving Governance in Southeast Europe: a Civil Society Update and New Public-Private Partnership Solutions* in Istanbul, Turkey. The discussion focused on the most pressing governance challenges in the region and on finding innovative public-private partnership solutions. Attendees witnessed first-hand the results of the unique regional *Corruption Monitoring System*, which provides an overview of anti-corruption progress in Southeast Europe in the period 2001 – 2014. The Chief Inspector at the Prime

Despite some important achievements – mostly with respect to the stabilisation of democratic institutions, the adoption of laws in key anti-corruption areas, a reduction in petty bribery and growing public intolerance of corruption – anti-corruption and good governance reforms are not consolidated, corruption among elected politicians and judges seems to be increasing and the enforcement of anti-corruption legislation is haphazard. Anti-corruption policies and institutions in the region will benefit immensely from the adoption of regular and accurate victimisation-survey based tool for measuring corruption and the rate of progress in good governance, similar to the special Eurobarometer on anti-corruption, UNODC's SEE monitoring of corruption and organised crime, and the Corruption Monitoring System employed by this report.

Critical sectors with high corruption and state-capture risks, such as the energy sector, should be addressed with priority. The other priority measures include:

- increasing competition in public procurement;
- improving the corporate governance of state owned enterprises;
- transparent management of large-scale investment projects;
- enhancing the accountability and independence of energy regulatory authorities.

Source: Anti-Corruption Reloaded: Assessment of Southeast Europe, CSD, 2014, p. 12, p. 19.



Participants in the workshop: Improving Governance in Southeast Europe: a Civil Society Update and New Public-Private Partnership Solutions, Istanbul, Turkey

Minister's Inspection Office of Turkey highlighted six key corruption-related challenges:

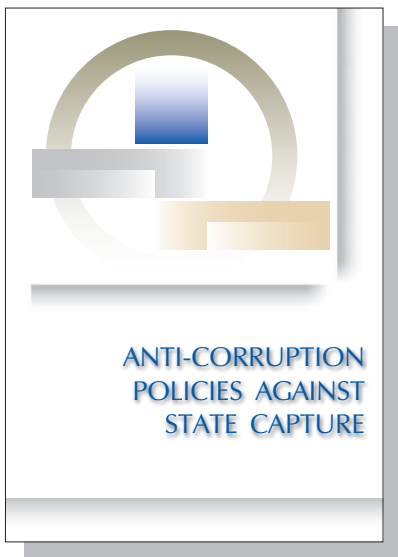
- Any deviation from democracy rules increases corruption.
- Countries that have governance problems also have corruption problems.
- Equality of treatment should always be combined with justice.
- In Turkey and other countries all immunity provisions should be abolished in relation to corruption related crimes.
- Countering corruption requires not only political will (which is spontaneous), but also political determination (persistence, stability and credible commitment).
- The state should have good institutional set-up to counter corruption crime. The question still stands if there should be one or many units tackling the problem. He also underlined that the countries should invest not only in institutions, but also in

the people, in order to educate them and build social values.



The representatives of the Center for the Study of Democracy presented the *SELDI Corruption Monitoring System* methodology and stressed that corruption is

a wide phenomenon that translates in many complex types of behaviours at different levels – administrative, political. They pointed out that the survey-based *Corruption Monitoring System* is one of the few instruments to objectively measure corruption, and produce data that is very different from the administrative and court statistics. It aims to assess the preconditions, the actual experience, and the perceptions of corruption, as well as the government’s effectiveness in countering corruption. According to the results, Croatia and Turkey have the lowest corruption indicators’ score, while Albania and Bulgaria manifest the highest corruption pressure index values and the highest shares of population that reports being asked to give a bribe.



The *Bulgarian Corruption Assessment Report* issued in 2014 highlights several key points:

- In the past year Bulgarians have conceded to being involved on average in roughly 158 thousand corruption transactions monthly.
- Most corruption transactions have been initiated by the administration
- through exerting corruption pressure on those seeking public services.
- The very high levels of corruption involvement of the Bulgarian population make criminal law enforcement initiatives ineffective and inadequate.
- The twin peaks of administrative and political corruption in 2014 have risen at the backdrop of the continuing failure of the Supreme Judicial Council to rise to the challenge and ensure that public prosecution and courts adequately tackle corruption and state capture. The structure of the judiciary still does not provide guarantees for fast, just, and transparent enforcement of the law.

On 11 December 2014, the Center for the Study of Democracy organised the Eleventh Anti-Corruption Policy Forum. Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, pointed out that political corruption had reached its peak, and it went beyond the corruption scandals associated with the judicial system. Dr. Shentov cited the management of large infrastructure projects such as Belene and South Stream as an example of state capture by foreign and local private interests.

Ms. Roumyana Bachvarova, Deputy Prime Minister, commented that the Corruption Assessment Report is hard reading, as it offers unambiguously hard conclusions. She defined the report as a bold piece of writing. According to Ms. Bachvarova Bulgaria needs a new anti-corruption action plan, laying down concrete measures and presenting a clear prospect of what must be done in the country.

The importance of CSD’s *Corruption Assessment Report* and the urgent need of reform was emphasised by **Mr. Konstantin Penchev**, Ombudsman of



From left to right: Mr. Philip Gounev, Deputy Minister of Interior; Mr. Andrei Yankulov, Deputy Minister of Justice; Ms Roumyana Bachvarova, Deputy Prime Minister; Dr. Ognian Shentov, Chairman, Center for the Study of Democracy and Mr. Konstantin Penchev, Ombudsman of the Republic of Bulgaria



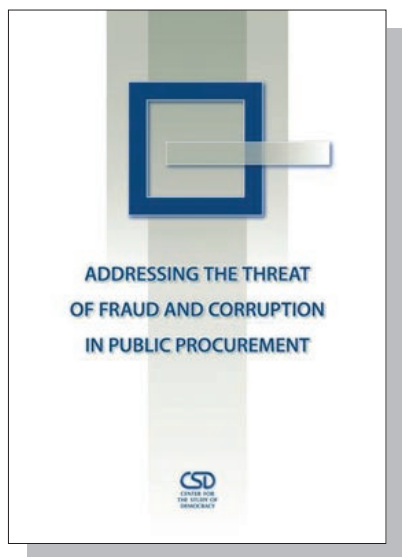
Eleventh Anti-Corruption Policy Forum: Anti-Corruption Policies against State Capture, Sofia

the Republic of Bulgaria, **Mr. Andrei Yankulov**, Deputy Minister of Justice, **Mr. Delyan Dobrev**, Chairman of the Energy Committee of the National Assembly. **Mr. Philip Gounev**, Deputy Minister of Interior, argued that massive and long-term investments in people and time are required to address the critical corruption risks. **Mr. Ilian Vassilev**, Honorary Chairman of the Bulgarian Economic Forum, confirmed that there is state capture in Bulgaria, citing as example the non-transparent and uncontrolled formation of the price of gasoline, natural gas and diesel. **Mr. Christian Takov**, law professor at Sofia University and Chairman of the Arbitration Court at the Bulgarian Chamber of Commerce and Industry (BCCI), **Justice Pavlina Panova**, Deputy Chair of the Supreme Court of Cassation and Chair of the Criminal Division of the Court, and **Ms Nelly Koutskova**, judge at the Sofia Court of Appeal, discussed anti-corruption measures targeting the judicial system.

CSD hosted the SELDI Steering Committee Meeting on the role of the CSOs in implementing regional anti-corruption programs on 28 October 2014 in Sofia. During the event, the discussion focused on the CSO executive management and development. Representatives from the Regional Cooperation Council (RCC) discussed the implementation of the *SEE 2020 Strategy and Regional Programming on Anti-Corruption through Public-Private Partnerships*. RCC outlined the work of the organisation and presented the *Southeast Europe 2020 Strategy: Jobs and Prosperity in a European Perspective*. Concentrating on growth while mirroring EU 2020 Strategy, the initiative is designed to specifically suit the regional characteristics of the SEE region. The SEE 2020 Strategy is based on five pillars, among which is the Governance for Growth Pillar, targeting effective public services and anti-corruption, and focusing on the effect of anti-corruption and hidden economy for facilitating environment for growth.



Participants in the SELDI Steering Committee Meeting on the role of the CSOs in implementing regional anti-corruption programs, Sofia



In 2014, CSD published the report *Addressing the Threat of Fraud and Corruption in Public Procurement: Review of State of the Art Approaches* which was based on ideas presented at the international seminar *EU's Financial Interests under Threat: New Approaches in Assessing the Risks from Public Procurement and EU Funds Fraud*, held on 31 October – 1 November 2013 in Sofia with the support of the European Anti-Fraud Office

(OLAF). The selected best practices in the report addressed the threat of fraud and corruption from multiple perspectives, with the underlying purpose of providing practitioners from Romania and Greece with a set of state-of-the-art approaches for tackling this threat in the complex multi-layered national public procurement systems.

CSD is part of the large-scale European project *Anticorruption Policies Revisited: Global Trends and European Responses to the Challenge of Corruption* (ANTICORRP), which utilizes the expertise of twenty research groups in sixteen EU countries. In 2014, CSD contributed to the elaboration of the second ANTICORRP report: *The Anti-Corruption Frontline* and the chapter on the Bulgarian anti-corruption report. The authors from CSD note that corruption is a key element to understanding the Bulgarian governance regime, i.e. the way political and administrative power are acquired, used, structured, delegated, and reproduced. The report underlines that Bulgarian governance has progressed since 1998, in particular as related to administrative (petty) corruption, but it is has not yet evolved into an open access order.

Public procurement is increasingly associated with great expectations. The 2020 Strategy for smart, sustainable and inclusive growth of the European Union invokes it in the achievement of objectives ranging from improving framework conditions for business to innovate to a shift towards a low-carbon economy, while at the same time ensuring the most efficient use of public funds. In times of bulging public deficits, the effect of potential savings – expected to come from better procurement rules – on the public sector balance is eagerly anticipated. The growing hopes that government purchasing would continue to contribute to economic prosperity, as well as to a host of other goals, however, require that its regulation be constantly modernised and brought in line with economic realities. A number of obstacles need to be overcome if public purchasing is to achieve such overarching societal goals. Highlighted among these has been the threat of fraud and corruption.

Source: *Addressing the Threat of Fraud and Corruption in Public Procurement: Review of State of the Art Approaches*, CSD, 2014, p. 9.



In February 2014 CSD presented a background analysis on Bulgaria's governance. According to the analysis, there is a need for careful consideration to understand how much progress Bulgaria has made in the fight against corruption and organized crime, as well as whether

Bulgaria could be considered to be an anti-corruption success story. The research showed that Bulgaria has made some progress in its transition from patrimonialism to open access order, but the main features of its governance regime remain these of competitive particularism. In legal terms Bulgaria displays some open access order features, but they do not translate into practical implementation.

The Center for the Study of Democracy contributed to the establishment of the Macedonian Anti-Corruption Platform of CSO representatives, and provided technical assistance to the Macedonian Center for International Cooperation (MCIC) for the publication of the first Macedonian Corruption Assessment Report. Experts of the Economic Program participated in the Anti-Corruption Policy Forum in Skopje, where the report was presented on 14 October 2014. The CSD team also participated in the training *Monitoring and reporting on the link between organized crime and corruption* from 14 to 16 October 2014 in Mavrovo,

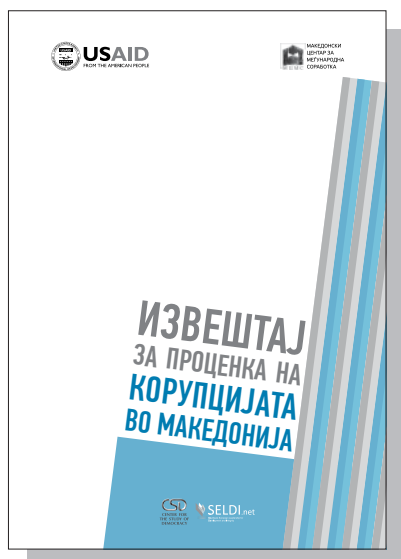


The participants in the Anti-Corruption Policy Forum, Skopje



Participants in the Regional Conference on Good Governance and Anti-corruption Policy Challenges, Tirana

Macedonia. The training was intended for journalists engaged in investigative journalism.



As part of the network of local correspondents of DG Home of the European

Commission, CSD prepared the Bulgarian section of the first *EU Anti-corruption Report*. In the report, published in February 2014, the European Commission suggests that Bulgaria shields anti-corruption institutions from political influence and appoints their management in a transparent, merit-based procedure. It also notes that random assignment of cases in courts should be ensured by an effective nationwide system, while dissuasive sanctions for corruption in public procurement should be enforced at national and local level.

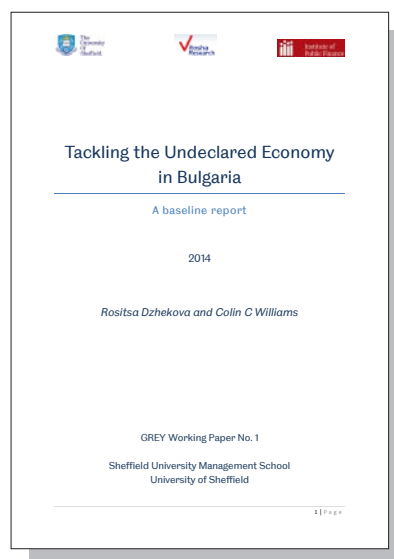
III. Monitoring and evaluation of hidden economy policies in Bulgaria and Southeast Europe

Recognizing the profound significance of the hidden economy problem in the region, CSD organised an international conference *States and States of Informality in Europe: Current and*



The participants in the conference States and States of Informality in Europe: Current and Future Perspectives, Sofia

Future Perspectives in cooperation with the Sheffield University Management School (UK) and the Institute of Public Finance (Croatia) on 4 September 2014. Its main topic concerned tackling the informal economy and undeclared work in Europe. The participants presented the findings from their background research on the state of the gray economy in Bulgaria, Croatia and Macedonia, as well as possible measures for tackling it. Professor Colin Williams from Sheffield University delivered the keynote speech and set out the conceptual framework for tackling undeclared work. He outlined the advantages and the disadvantages of undeclared work for all involved parties – the employee, the employer, the government and the end customer, and what makes the practice attractive. The outlined policy approaches for dealing with the issue include increasing direct control – by stepping up deterrent measures and



providing more incentives for both employers and employees to declare work, and indirect control – by fostering a culture of commitment which aligns

Recent surveys indicate that although the undeclared economy appears to be shrinking over time, there is an increasing involvement in some types of undeclared work due to the economic crisis. This means that although the overall trend is downwards, not all forms of undeclared work are shrinking.

Examining sectorial and business variations, there is greater involvement in the undeclared economy amongst small and medium-size enterprises, and those operating in construction, retail, tourism, hotels and restaurants, real estate, garments, food processing and the agricultural sectors as well as some services. Overall, labour-intensive, low technology sectors are more vulnerable to entering the undeclared realm. Producers and distributors of excise goods (alcohol, cigarettes and fuel) are considered at high risk when it comes to tax/excise evasion and under-reported turnover.

Source: Tackling the Undeclared Economy in Bulgaria: a baseline report, GREY Working Paper No. 1, University of Sheffield, 2014, p. 6.

the values of the citizens with the formal rules and regulations. CSD also contributed to the elaboration of five policy papers: three on tackling the undeclared economy in Bulgaria, Croatia, and Macedonia, one on the policy approaches towards undeclared work, and one assessing the the cross-national transferability of policy measures for tackling undeclared work.

The Center for the Study of Democracy and the Center for Research and Policy Making (CRPM) in Macedonia started an initiative to monitor and analyze the hidden economy and to outline actions for curbing its negative implications in Macedonia. CSD and CPRM seek to introduce evidence-based tools for monitoring and awareness raising for tackling the hidden economy in Macedonia, based on the experience of CSD. CSD and the Center for Research and Policy Making, in association with the European Instrument for Democracy and Human Rights, organised a conference in Skopje to examine the state of the hidden economy in the Republic of Macedonia on 5 June 2014. Representatives from academia, community-based organisations and

private-sector employers discussed the informal economy monitoring practices, its different forms and possible interaction between the civil society sector and state institutions in an attempt to prevent it. The two partners provided further advocacy and awareness on the topic through the *workshop Tackling Undeclared Work in Macedonia: Local and European Experience*, held on 27 November 2014 and the *workshop Strengthening Media Reporting on Hidden Economy and Corruption: Latest Trends and European Experience*, held on 28 November 2014. CSD and CPRM also put together a *Reader of Articles: Best Practices in Monitoring Hidden Economy*, issued in English and Macedonian. The compilation of articles in the Reader summarises the most recent activities in countering the hidden economy in the EU and beyond. Understanding current research and policy work on the hidden economy will help Macedonian government, practitioners, and civil society to better understand its nature and implications for development on national and local level in Macedonia.

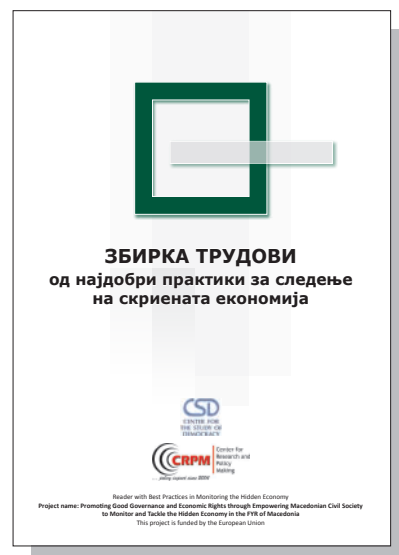
CSD presented its experience in measuring the hidden economy in Bulgaria on



The participants in the conference: Tackling the Hidden Economy in Macedonia: Strengthening the Public-Private Dialogue, Skopje

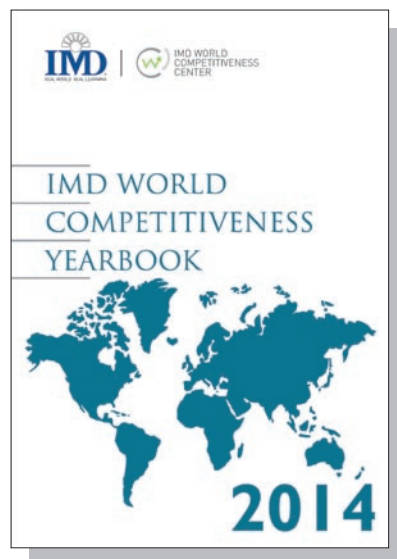
8 October 2014 during the TeliaSonera Business Day: Exploring the Shadow Economy Around the World. The event was hosted by the Stockholm School of Economics (SSE) in Riga, the TeliaSonera Institute at SSE Riga and TeliaSonera. The Economic Program representatives provided some insights on the hidden economy manifestations in Bulgaria for the period 2002 – 2011 and introduced the audience to CSD's *Hidden Economy Index*, which reflects the dynamics of the hidden economy in Bulgaria since 2002. The index covers components such as hidden employment, hidden turnover, and VAT fraud. They underlined the importance of the hidden economy issue, and reminded that the hidden economy can be used as an aggregate indicator of the quality of policies and institutions. The Economic Program provided recommendations for measures to limit

undeclared work and stressed on the fact that the cost of entrepreneurship continues to be too high.



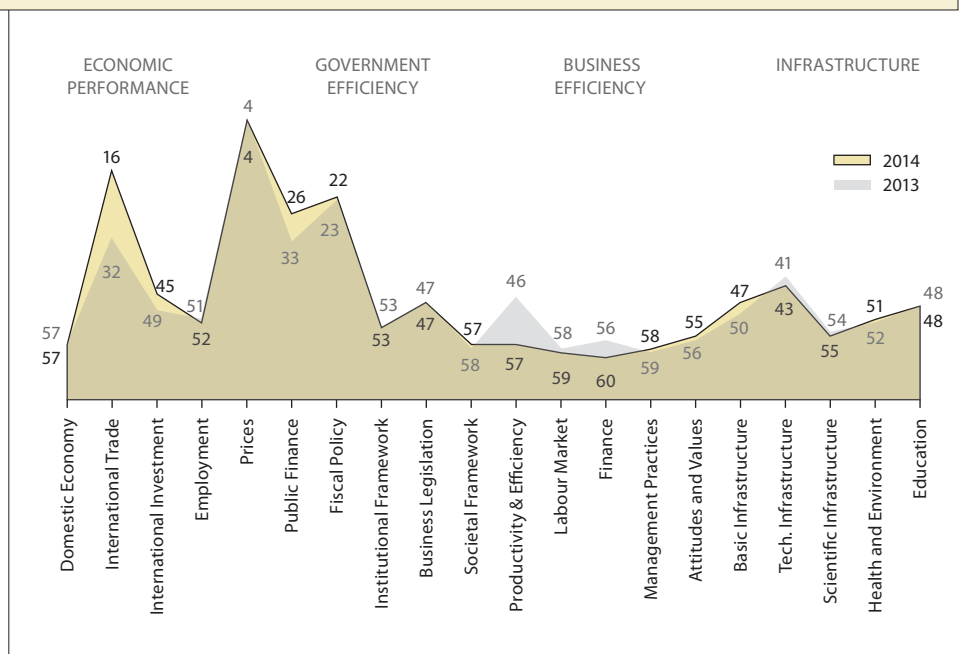
IV. Competitiveness and the knowledge economy

In 2014, the Center for the Study of Democracy continued to analyze the competitiveness of Bulgaria and its place on the world's map. CSD presented the results of the *IMD World Competitiveness Yearbook 2014* on 22 May 2014. The Center is the official partner of the World Competitiveness Center at the International Institute for Management Development (IMD) for Bulgaria. The previous eight issues of the Yearbook had a direct impact on the policy-making and were quoted in strategic policy documents of the Bulgarian government. International investors monitor very closely the IMD competitiveness ranking, which makes its 2014 results even more relevant. In 2014, Bulgaria is ranked in 56th position – one place above its 2013 rank.



CSD also supported the preparation of the annual *Innovation.bg* report which provides a reliable assessment of the

Figure 1. Changes in the Competitiveness Landscape of Bulgaria 2013 – 2014, IMD 2014



innovation potential of the Bulgarian economy and the state and development capacity of the Bulgarian innovation system. It put forward recommendations for improved public policy on innovation in Bulgaria and the EU by drawing on the latest international theoretical and empirical research, while taking into account the specific economic, political, cultural, and institutional framework in which the country's innovation system is operating. The 2014 edition notes the challenges still remaining in front of Bulgaria's innovation policy:

- Underfinancing of the national innovation system, which incorporates scientific organisations, innovative companies, traditional large and small firm structures, non-governmental innovative bodies, etc.
- Lack of coordination between the various strategic and legislative documents, necessary for the setting a uniform and common regulative framework.