

Economic Program

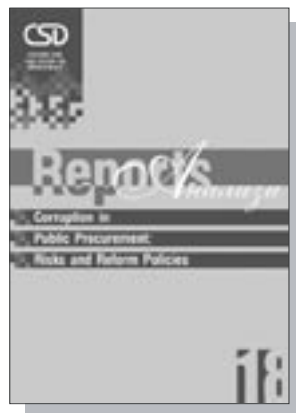
In 2007, the Economic Program focused its work on four thematic areas: informal economy and anti-corruption, in particular in the areas of public procurement and healthcare; introducing public-private partnerships in Bulgaria; regional innovation policy and development; and competitiveness of the Bulgarian economy.

2007 Highlights

- The Economic Program continued its work on monitoring and policy-analysis of the **hidden economy and related corruption practices** in Bulgaria. In 2007 CSD focused its policy recommendations on anti-corruption in public procurement and in healthcare in Bulgaria. The Hidden Economy Index remained roughly flat for a second consecutive year.
- Developing the infrastructure for **public-private partnerships** was in the spotlight of the Economic Program's **advocacy efforts to promote policies for countering corruption risks** and improving Bulgaria's capacity to manage EU Funds. In 2007 CSD published an overview of best international and European practice on public-private partnerships, which aided its efforts on increasing the private sector participation in the policymaking process and on raising public awareness on the importance of PPPs.
- With the partnership of CSD this year Bulgaria was included for the second time in the world's oldest and most comprehensive annual report on **competitiveness** - the World Competitiveness Yearbook of IMD (International Institute for Management Development). The Bulgarian economy kept its position unchanged compared to the previous year's ranking, though business efficiency declined in 2007.
- CSD enhanced its impact on regional level policy making through the implementation of the RIS BRIDGE initiative – **introducing innovation strategy and policy in the Southwest Region of Bulgaria**.
- In 2007 CSD continued its work with the Global Development Learning Network (GDLN) through its **Distance Learning Center**. The center delivered series of videoconferences on key development topics: SMEs and access to finance; regional competitiveness; investment climate, etc.

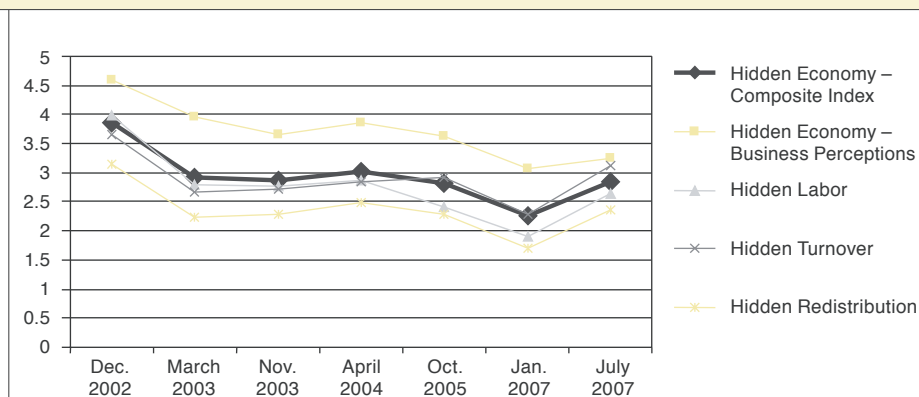
I. Informal Economy and Anti-Corruption

In 2007 the Center for the Study of Democracy released for the fifth consecutive year the **Hidden Economy Index**. The data showed a slight increase in the level of the informal economy in Bulgaria in mid 2007 compared to the beginning of the year, which marked a return to the 2005 index level. CSD took part in the initiative „Na svetlo“ (In the light), initiated by the business and the Government of Bulgaria. On 19 June 2007 Mr. Petkan Iliev, Senior Fellow at the Economic Program of the Center for the Study of Democracy participated at a discussion round-table “The Grey Economy: Impact on the Development of Bulgaria and Measures to Address the Problems,” which was organized in the framework of the initiative. He presented the latest data of the Hidden Economy Index 2007, revealing the spread and trends in the informal economy activities in Bulgaria. He also made specific recommendations for improving the business environment for limiting the negative impact of the informal economy in the country.



Public procurement is among the areas of public sector management in Bulgaria which are characterized by the highest corruption risk. Corruption abuses in public procurement abound in all stages of the process but their overall pattern is one: awarding a contract to a pre-selected bidder to the detriment of public interest through violation of the principles of fair competition with the aim of gaining personal benefit. To aid the government’s anti-corruption policy CSD delivered the report *Corruption in Public Procurement: Risks and Reform Policies*, which examines corruption in public procurement and

Figure 1. Hidden Economy Index Dynamics



assesses fiscal and social losses from it. The report pays special attention to the problems of **grand corruption in public procurement**. The report puts the **fiscal loss from corruption in public procurement in 2006 alone at BGN 1.2 billion** (EUR 614 million) – an amount, commensurate with the expected annual EU Funds’ commitments for Bulgaria for the next 2-3 years. The report explores in depth the corruption risks in public procurement in the Bulgarian **energy sector** – the sector with the highest number of public procurement contracts for the past couple of years in the country. In this context, the report points out the low capacity of the Bulgarian audit and control system to monitor and check large public procurement tenders, which have the highest potential negative corruption impact. CSD will continue to watch over this very sensitive area of the Bulgarian economy and politics especially in the light of the expected steep increase of financing, available to Bulgaria under the **European Funds** for the period 2007-2013.



The report *Corruption in Public Procurement: Risks and Reform Policies* was presented on 16 May 2007 at a round table, organized by CSD and the Anti-Corruption Committee of the Bulgarian Parliament. The English version of the report was presented on 26 June 2007. The authors, Dr. Konstantin Pashev and Mr. Assen Dyulgerov, Senior Fellows at the Economic Program of the Center

for the Study of Democracy, presented possible policy measures for countering corruption in public procurement, including a **system for monitoring corruption risks in procurement**.



The second specific economic anti-corruption focus of the CSD team in 2007 was the **healthcare sector** in Bulgaria. CSD published the report *Corruption in the Healthcare Sector in Bulgaria*, which analyses the causes and consequences of corruption in the healthcare sector of the country at a time of heightened social sensitivity to persisting problems in the Bulgarian healthcare system. In the context of slow institutional reforms the report reveals the incentives of medical personnel for corruption, as well as the size and scope of corruption in the Bulgarian healthcare system. The report points out that CSD’s Corruption Monitoring System, which follows the level and spread of corruption in Bulgaria, shows that it is rising in the healthcare sector. At the public presentation of the report Mr. Boyko Velikov, Chairman of the Parliamentary Anti-Corruption Committee underlined that **the level of corruption in healthcare had long passed the tolerance limit of the Bulgarian society**. The author of the report Dr. Konstantin Pashev, Senior Fellow at the Economic Program of the Center for the Study of Democracy noted

that **about 40% of the citizens identified healthcare as one of the spheres with highest level of corruption in 2007**. Thus healthcare rates the third most corrupt public service after customs and the judiciary in Bulgaria. Doctors, however, rated as the most corrupt in CSD's Corruption Monitoring System in 2007 when the citizens were asked to reveal their personal experience with corruption pressure.

II. Developing Public-Private Partnerships in Bulgaria

In 2007 the Center for the Study of Democracy started an initiative for **promoting democratic governance in Bulgaria by establishing a national legal framework for public-private partnerships (PPPs)**. The objective of the initiative was the increase of private sector participation in the policymaking process by provision of the necessary institutional framework and the raising of public awareness on the importance of PPPs.

CSD published a brochure, which provides overview of the regulatory arrangements and the practical implementation of public-private partnerships in 11 countries. The brochure was presented to four Bulgarian ministries, the Sofia Municipality, various associations and NGOs. Following a series of consultations with public and private sector stakeholders and a study of the US experience in PPP, CSD proposed to the Bulgarian Ministry of Finance the establishment of a **Public Private Partnerships Initiative in Bulgaria**. The Initiative aims at providing a platform for transparent and long-term engagement of local and international businesses, non-governmental organizations and public bodies in formulating policies and carrying out joint projects through PPPs.



The brochure *Legal Framework of Public-Private Partnerships* makes an overview of the regulatory arrangements of public-private partnerships in USA, Canada, United Kingdom, Austria, the Czech Republic, France, Germany, Greece, Ireland, Italy and Poland as well as relevant European Union legislation. The profiles of the different countries allow comparison between the regulation of PPPs in them along three lines:

- definition of PPPs;
- types of PPPs;
- application of PPPs.

The publication identifies the major types of public-private partnerships and juxtaposes them with the existing Bulgarian legislation. The paper concludes that **the current Bulgarian legislation leaves outside its scope any PPP relations but the classic forms such as public procurement and concessions** thus limiting the possibilities for cooperation between the public and private sector, including in sectors, which are in need of large investments and private expertise, such as water and ecological infrastructures, social infrastructure, etc.

On 13 June 2007 the Center for International Private Enterprise (CIPE), the

Federal City Council, Washington and the Center for the Study of Democracy, Sofia organized a round table “Building Public-Private Partnerships: The Experience of Bulgaria” in Washington D.C. Key note speaker at the event was the Mayor of Sofia Mr. Boyko Borissov who presented the possibilities for public-private partnerships in financing and implementing infrastructure projects in Sofia. The hosts from the Federal City Council outlined their 30 years of experience in public-private partnerships in Washington D.C.

III. Competitiveness and Innovation

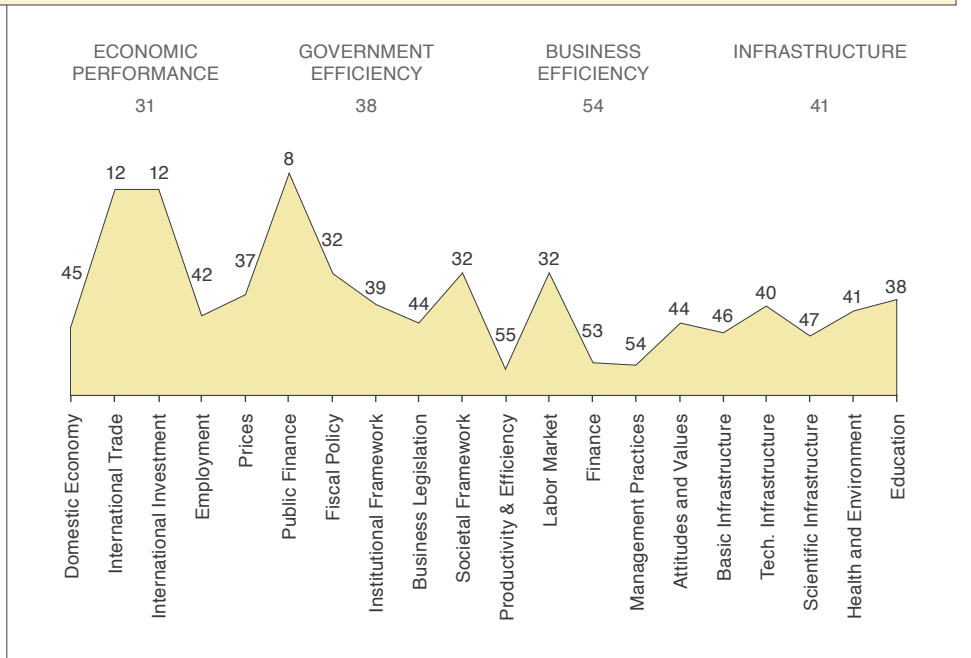
The Center for the Study of Democracy continued its work on the development of Regional Innovation Strategy for South West Planning Region of Bulgaria and measuring the competitiveness of Bulgaria.

With the partnership of CSD in 2007 Bulgaria was included for the second time in the World’s **oldest and most comprehensive annual report on competitiveness**-the World Competitiveness Yearbook of IMD (International Institute for Management Development). For seventeen years (since 1989) the report ranks and analyzes how the economic environment in more than 60 nations creates and sustains the competitiveness of enterprises. Bulgaria’s competitiveness was covered and ranked together with 54 other leading world economies. This year Bulgaria ranked 41st on overall competitiveness, surpassing Italy, Romania, Ukraine, Turkey, Poland, and Croatia among others. In 2007 Bulgaria has largely kept unchanged its position compared to the previous year, though according to the index its **business efficiency declined**. According to the data **the greatest challenge** for Bulgaria in the medium



From left to right: Mr. Tzvetan Tzvetanov, former Deputy Mayor of Sofia; the interpreter of the meeting; Mr. Boyko Borissov, Mayor of Sofia; Mr. John Hill, CEO of Federal City Council and Mr. Christo Gudjev, Charge d’Affaires, Bulgarian Embassy in Washington

Figure 2. Competitiveness Landscape of Bulgaria 2007



and long terms is the **improvement of human capital**. In the short term the challenges are related to improvement of the business environment and corporate governance practices in medium and big Bulgarian companies. CSD presented the results and conclusions of the ranking at a press conference “International Competitiveness of Bulgaria 2007” on 9 May 2007, as well as at a seminar “Competitiveness of the Bulgarian Economy”, organized by the Ministry of Economy and Energy on 14 November 2007.

CSD put forward the main results and conclusions from the 2007 competitiveness ranking in a policy brief *The Competitiveness of the Bulgarian Economy 2007*. The brief was communicated to Bulgarian ministries and the Bulgarian Parliament. The Minister of Economy and Energy referred to the conclusions



of the analysis in his presentation of the Government's priorities for 2008. Some of the main recommendations for policy actions in the policy brief are:

- Improving the business environment and the corporate governance;
- Improving basic infrastructure and investing in science;
- Promoting innovation, high-tech export and cooperation.



Ms. Yvonne McCarthy, Research Analyst at the Economic and Social Research Institute and Central Bank of Ireland

On 14 June 2007 the Center for the Study of Democracy and the Irish Embassy in Bulgaria organized a round table discussion on the topic "Ireland's Road into the EU: the Economy" with guest speaker Ms Yvonne McCarthy, Research Analyst at the Economic and Social Research Institute and Central Bank of Ireland. She described the dramatic changes in the Irish economy since 1988 with a **focus on the impact of immigration**. During the discussion Ms McCarthy elaborated that the **EU Structural Funds have been successfully employed in creating the pre-conditions for growth in the Irish economy**. They were used for the **improvement of education**, which was instrumental in creating a skillful labour force.



In 2007 CSD continued its work on regional level in Bulgaria through the **development of the Regional Innovation Strategy for the South West Planning Region of Bulgaria (RIS BRIDGE)**. The RIS BRIDGE initiative's objective is to prepare the South West Planning Region of Bulgaria for its work with the Structural Funds through analysis of the innovation potential of the region, elaboration of Regional Innovation Strategy and Plan for its implementation, including specific measures in support of innovation and technological upgrading of the business at regional level.

In 2007 representatives of the Center for the Study of Democracy, Applied Research and Communications Fund and regional governors from the South-West Region of Bulgaria took part in a **study visit** to Baden-Württemberg, Germany, and West Midlands, UK. The visit centered around exchange of experience and discussion of the regional innovation strategies' follow-up and implementation, including the mechanisms of financing regional innovation-based economic development, boosting research potential and promoting collaboration between enterprises and research institutes.

The Center for the Study of Democracy and Applied Research and Communications Fund, together with the Regional Administration of Sofia city and the Association of the South West

Municipalities, organized a Regional Conference on the role of the Regional Innovation Strategy (RIS) initiatives for building regional capacity to work with the financial instruments of the European Cohesion and Structural Funds in successful public-private partnerships. The conference focused on:

- the **analysis of the innovation demand and supply** and functioning of the regional innovation system of the South West planning region of Bulgaria;
- the **financial opportunities** for the regional stakeholders envisaged within the Structural Funds and the Operational Programs Competitiveness, Regional Development and Human Resource Development;
- the **capacity of the municipalities** in South West Bulgaria to work in public-private partnerships with the respective financial instruments, and
- an example of a bank's financial

policy designed for supporting project proposals for **public-private partnerships within the Structural Funds**.

IV. Distance Learning

CSD continued its work with the Global Development Learning Network (GDLN) through its Distance Learning Center. In 2007 the Center carried out a total of 21 videoconferences, mainly within the framework of three parallel series on: SME development and access to finance; regional competitiveness; and investment climate. This initiative brought together policy-makers, civil society and other national organizations from eight countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Romania and Serbia, along with World Bank staff.

Some of the topics presented to Bulgarian audience through the CSD Distance Learning Center in 2007 were:



Participants in a Private Sector Development Initiative for Southeastern Europe videoconference at the Sofia Distance Learning Center.

enterprise access to finance; private sector economic development and competitiveness building strategies; regulatory reform and regulatory impact analysis; privatization, enterprise re-

structuring and SME development; creation of industrial clusters; labor competitiveness and regulation, etc.