

# Economic Program

In 2012, the Economic Program of CSD focused on five priority themes: Energy Security and Sustainable Development; Hidden Economy and Anti-Corruption; Civil Society; Competitiveness and the Knowledge Economy; and Evaluation of the Impact of the European Funds in Bulgaria.

## Highlights of 2012

- **Energy Security and Sustainable Development.** In 2012 CSD published two reports dealing with green economy growth and gas transparency in Bulgaria. These focus on the necessary policy measures for transitioning towards sustainable development and provide recommendations for improving the governance and transparency of the Bulgarian energy sector. The CSD team has raised public awareness on the topic through the organization and participation in national and international round tables and public discussions, as well as through publications in Bulgarian and international media.
- **Hidden Economy and Anti-Corruption.** CSD presented the data from the Hidden Economy Index 2012 and its fourteenth consecutive annual results from the Corruption Monitoring System (CMS), incorporated into the Corruption and Anti-Corruption in Bulgaria (2011-2012) policy brief. In 2012 CSD started its participation in the EU Anti-Corruption Networks of Local Correspondents for preparing the first EU-27 Anti-Corruption Report. CSD and the Center for Investigative Reporting, Bosnia and Herzegovina presented at a policy forum in Sarajevo the corruption assessment report *Countering Corruption in Bosnia and Herzegovina 2001 – 2011*, providing an overview of the state and dynamics of corruption and anti-corruption developments in Bosnia and Herzegovina during the period 2001 – 2011. The report formed part of an EU effort to empower the civil society in the country in its fight against corruption, through exchange of experience with similar organizations and other stakeholders in the region.
- **Civil Society.** CSD continued working on its mission of enhancing the development of the Bulgarian civil society, by setting the grounds for improving the operation of the NGO register and of other national registers; proposing changes to the NGO legislation to improve the governance, transparency and accountability of non-governmental organizations in Bulgaria; and raising awareness on cases, imposing risks to civil society development in the country.
- **Competitiveness and the Knowledge Economy.** With the active participation of the Center of the Study of Democracy, Bulgaria was included, for the seventh time, in the 2012 edition of the World Competitiveness Yearbook, published by IMD (International Institute for Management Development). According to the study, in 2012 the Bulgarian economy occupied 54th place, out of 59, in the country competitiveness ranking. Traditionally, CSD, took part in the preparation of the

Innovation BG 2012 national report on the performance of the Bulgarian innovation system.

- Evaluation of the Impact of the European Funds in Bulgaria. CSD is part of the DG Regional and Urban Policy's Expert Evaluation Network for monitoring the effects of the EU funds on member-states' economies. In the frame of the network CSD prepared the annual assessment on the achievements of Cohesion Policy in Bulgaria in 2012. In addition, CSD prepared a thematic report focusing on EU-funded financial engineering instruments (FEIs) available in Bulgaria.

## I. Energy Security and Sustainable Development

During the course of 2012, CSD paid special attention to the link between energy security and sustainable development, as well as between the themes of climate change and renewable energy sources.

The Economic Program of CSD presented at a public discussion the report *Green Growth and Sustainable Development for Bulgaria: Setting the Priorities*, published in cooperation with the Friedrich Ebert Foundation, Sofia. The discussion

took place at the Bulgarian Telegraph Association on 2 April 2012. The event focused on existing **economic, educational, environmental, and energy issues** in Bulgaria, which needed to be addressed simultaneously, such as the current state of the environment (and more specifically, air quality and pollution), the massive energy losses in the processes of transformation and distribution, the obstacles to achieving a low-carbon development and boosting green jobs in the country, as well as the perspectives for green growth. One of the key messages from the discussion was that the Bulgarian authorities seemed to scape-



*Presentation of the report *Green Growth and Sustainable Development for Bulgaria: Setting the Priorities*. From left to right: Ms Denitza Mantcheva, Policy Analyst at the Economic Program of the CSD; Mr. Ilin Stanev, Editor at Capital Newspaper; Mr. Nikola Gazdov, Chairman of the Bulgarian Photovoltaic Association and Ms Michaela Mahler, Program Coordinator, Friedrich Ebert Foundation*

goat green energy for the whole increase in electricity prices for the population, while covering for the losses from bad governance and strategic decisions. Thus, the Bulgarian government forgoes the opportunity of developing the green sectors of the economy, which have provided growth internationally. The main presenter was Ms Denitza Mantcheva, Policy Analyst at CSD, while Mr. Nikola Gazdov, Chairman of the Bulgarian Photovoltaic Association was the discussant, and Mr. Ilin Stanev, Editor at Capital Weekly newspaper, moderated the discussion.



The report *Green Growth and Sustainable Development for Bulgaria: Setting the Priorities* reviewed, for the first time the green economy agenda for Bulgaria. According to the authors, the current pattern of energy use in Bulgaria (including both households and industry) is unsound. The country's energy intensity is strikingly high, when compared to other European countries, thus, Bulgaria's overriding priority should be to stimulate energy efficiency by sufficiently utilizing EU funds. Measures to boost energy efficiency would create more jobs and revenues for Bulgarian SMEs, while measures promoting energy savings

would mean utilizing the existing capacity at a low or no extra cost. Bulgaria has so far failed to take advantage of the international boom in green energy industry development. CSD continued to raise public awareness on **good governance in the energy sector** and to increase its capacity in the energy policy domain by hosting public lectures with recognized international speakers on topics of primary importance to the international energy community and to Bulgaria. CSD held a round table discussion with Mr. Vladimir Milov, Leader of the Democratic Choice Movement and Former Deputy Minister of Energy of the Russian Federation AAon 17 May 2012. In his opening statement, Mr. Milov focused on refuting the widespread view in Europe of Russia as an inexhaustible pile of "energy muscles". He supported his arguments by looking at the prospects of the two of the biggest state owned energy companies – Gazprom (natural gas) and Rosatom (nuclear energy). He pointed out that they were facing mounting difficulties and declining market shares, which they failed to acknowledge and tried to hide behind a PR facade. Mr. Milov pointed out that Gazprom would never restore its absolute volumes of gas supply to Europe from before the crisis, as it continued losing its competitive edge. The company's overreliance on long-term predictable contracts and on inflexible pipeline delivery system, and the rise of alternative sources such as LNG and shale gas, made the gas giant increasingly vulnerable to swings in consumer demand. A common feature that Mr. Milov noted both Gazprom and Rosatom shared was the lack of economic rationale in their business ventures. The expert acknowledged that a key element of their survival and the continuation of unprofitable projects was the indiscriminate financing coming from Russian state banks. Mr. Milov also expressed concern over serious corruption practices in the



*Mr. Vladimir Milov, Leader of the Democratic Choice movement and Former Deputy Minister of Energy of the Russian Federation, at a round table discussion*

Russian energy sector. During the lively discussion, Mr. Milov said that both South Stream and Nabucco projects had problems with their economic rationale. It was noted that the era of huge infrastructure projects was over and the SEE region should focus on LNG and the development of indigenous Black Sea gas reserves instead.

A round table discussion on Germany's transition to renewable energy sources (the so called *Energiewende*) and the potential impacts of this transformation on European energy policy was organized by CSD on 6 June 2012. Dr. Ognian Shentov, Chairman of the Center, initiated the discussion of Germany's experience of radically changing its energy policy towards a predominantly renewable economy, and the opportunity that this provided for different green energy technologies and innovation. In his opening statement the keynote speaker Mr.

Dieter Janecek, Chairman of the Green Party of Bavaria, stated that Germany has made many crucial decisions in the last 20 years that have impacted its industry and economy. He highlighted a number of motives for Germany's transition to renewable energy sources, including employment, such as the energy transition process had opened up opportunities for new players and markets; in particular, green technologies, such as solar PV, geothermal, wind, and hydro had led to a number of jobs being created; lack of fossil fuel sources - creating energy from renewable sources within the country, rather than importing it from other countries, would have significant benefits for Germany; lack of support for nuclear power - an initial decision was made to stop using nuclear power in 2000, and following the nuclear disaster at Fukushima in 2011, there was a general consensus in Germany that the risks of nuclear power were too high;



*Mr. Dieter Janecek, Chairman of the Green Party of Bavaria, discussing Germany's experience with renewable energy sources*

bottom-up pressure – there is currently around 80 – 90 % support for a transition to greener and cleaner energy from German people. Mr. Janecek acknowledged that there were challenges ahead, such as the fluctuating nature of energy produced from renewable technologies. However, he believed that there were significant opportunities for Germany in becoming a key player in the international green energy market.

The director of CSD's Economic Program Mr. Ruslan Stefanov took part in a high-profile energy conference on "Trans-Anatolian gas pipeline: Challenges and Prospects for the Black Sea countries and the Balkans" held in Istanbul, Turkey, on 28-29 September 2012.

The event was organized by the Entrepreneurship Development Foundation,

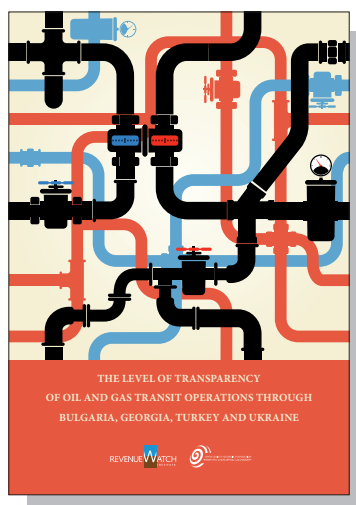
Azerbaijan and included participants from Turkey, Poland, Romania, Bulgaria, Georgia, Armenia, Azerbaijan, Russia, USA, and UK. Mr. Ruslan Stefanov was among the speakers on two of the panels – on the prospects for the development of gas markets in the Black Sea Basin, and on the hydrocarbon transit revenues transparency in Georgia, Bulgaria, Turkey, and Ukraine. Mr. Stefanov provided an overview of the most significant issues related to the security of gas supply in the region, with a particular focus on the situation in Bulgaria. Among the main challenges for the development of independent gas markets on the Balkans (and in Bulgaria, in particular), were the extremely high import dependency on Russia (nearly 100 %), insufficient regional gas integration, severely limited bargaining power, and deeply rooted governance issues related to the histo-



*Mr. Ruslan Stefanov, Director of the Economic Program, CSD, speaking at the conference "Trans-Anatolian gas pipeline: Challenges and Prospects for the Black Sea countries and the Balkans"*

ry of strong Russian lobbies, inefficient bureaucracy, and rent-seeking behavior in state-owned energy sectors. Mr. Stefanov also focused on the geopolitical and economic importance of the large international pipeline projects planned for the SEE region, concluding that the new routes would bring the region some advantages regarding its supply, however, these advantages were far from uniform. During the latter panel, Mr. Stefanov presented an analysis of *Hydrocarbon Transit Transparency in Bulgaria*, providing an overview of the gas transit situation in the country. He indicated as main sources of non-transparency in gas and oil transit (i) the lack of competition, as Bulgaria's transit network has been reserved for one supplier only until 2030, while also being served by two companies under the same state-owned monopoly (Bulgargaz and Bulgartransgaz), and (ii) the limited oversight from the EC. The conclusions were based on the report *The Level of Transparency of Oil and Gas Transit Operations through Bulgaria*,

*Georgia, Turkey and Ukraine* that offers the first ever assessment of the process of transiting natural gas and oil in the region.



The report *The Level of Transparency of Oil and Gas Transit Operations through Bulgaria, Georgia, Turkey and Ukraine* ena-

bled the first of its kind assessment of the hydrocarbon transit environment in the countries under consideration. The report concluded that all the countries face serious gaps in the transparency of its hydrocarbon transit activities, while access to information about transit tariffs, available capacity, and budget revenues had been severely restricted. The study was the result of a joint regional initiative for “Promoting Transparency in the Transit of Hydrocarbons through Bulgaria, Turkey, Georgia, and Ukraine” by CSD and the Revenue Watch Institute (New York), which started in 2011.

## II. Hidden Economy and Anti-Corruption

CSD continued to work on its flagship themes of hidden economy and anti-corruption in the course of 2012.

During a policy briefing on 18 January 2012, CSD presented its latest publica-

tion *The Hidden Economy in Bulgaria and the Global Economic Crisis*, published with the support of the Friedrich Ebert Foundation, Sofia. Mr. Ruslan Stefanov, Director of the Economic Program at CSD, presented the main findings of the publication to economic experts and representatives of the European diplomatic corps in Sofia. The report, published in late 2011, discussed the **effects of the global economic crisis on the labor market and undeclared employment**, basing its findings on the *Hidden Economy Monitoring System*. The core causes of hidden economy in Bulgaria are the tax and social security burden, regulations, restrictions of and requirements for market access, as well as the quality of the public institutions in the country. The ineffectiveness and inefficiency of the latter, reinforced by the lack of constructive dialogue between the public and private sectors, are identified as the primary prerequisites for the growth of the hidden economy. Its levels are estimated to be in the range



*The participants in the economic briefing, 18 January 2012*



*From left to right: Ms. Leila Bicakcic, Director of CIN; Mr. Holger Schroederer, Head of Operations at the EU Delegation to BiH and Ambassador Roderick Moore, Principal Deputy High Representative*

between 20 % and 30 % of GDP. On a sectoral level, construction, retail and tourism are among the industries with highest level of hidden economic activities in Bulgaria. Taking into account relevant European and national experience, specific recommendations were formulated with the objective of improving public policies, aiming at restricting the hidden economy. The discussion focused on the dynamics of the hidden economy, policies and countermeasures, and reasons and motivation for entering the gray sectors. Ms Valentina Nikolova, Institutional Partnerships Director at Teach for Bulgaria, made a direct correlation between the state and quality of the Bulgarian education system and the levels of the hidden economy.

In 2012 CSD leveraged its experience and expertise in the field of anti-corruption to influence policy-making and civil society participation on national, regional and European level. CSD started work on the first EU **Anti-Corruption Report**

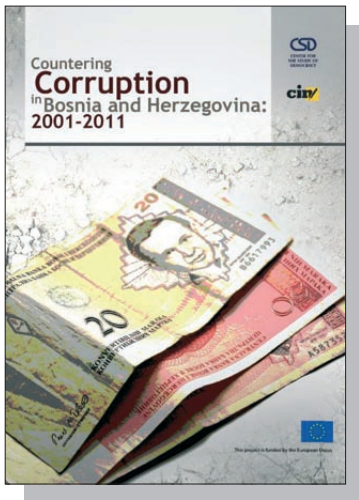
as part of DG Home's Network of Local Correspondents on Anti-Corruption. The task of the network is to collect and analyze data on the spread of corruption in EU-27 and the institutions and policies in place to counter this negative phenomenon. The work will culminate in the first-ever EU-wide report on corruption and anti-corruption in EU-27 due to be published by the European Commission in 2013.

In 2012, CSD joined a consortium of European research entities to take stock of the existing state of the art and deliver new insights for European anti-corruption policies. ANTICORRP, as the initiative is known, constitutes the biggest research effort in social sciences and humanities in the history of EU's framework program for research. During the next five years, CSD will collaborate with its research partners to deliver better responses to corruption in public procurement, in particular in the disbursement of EU funds and to the links between



corruption and organised crime and the latter impact of vulnerable groups, in particular trafficking of women.

CSD and the Center for Investigative Reporting, Sarajevo (CIN) presented the report *Countering Corruption in Bosnia and Herzegovina: 2001 – 2011*, at a policy forum in the capital of **Bosnia and Herzegovina** on 12 June 2012. The forum was part of an EU effort to empower the civil society in the country in its fight against corruption, through exchange of experience with similar organizations in the region. The event attracted a variety of stakeholders ranging from international organizations and governmental agencies to media representatives.



The policy forum speakers included Mr. Holger Schroeder, Head of Operations at the EU Delegation to BiH; Ambassador Roderick Moore, Principal Deputy High Representative; Mr. Sead Lisak, Director of the Agency for Prevention of Corruption; Mr. Oleg Cavka, Prosecutor from BiH's Prosecutor's Office; Mr. Srdan Blagovcanin, Executive Director of Transparency International, BiH; Mr. Edmond Dunga, Head of Secretariat of Regional Anti-corruption Initiative. Among the participants were other

highly experienced and influential professionals in the anti-corruption policy domain in Bosnia and Herzegovina and in the region. During the discussion that followed the report presentation, the participants raised a number of issues, such as: the dysfunctional democratic system and its inability to provide a basis for countering corruption; the decreased international pressure on fighting corruption; the lack of political accountability; the lack of change in political elites (largely remaining the same over the years after the war); citizens' lack of interest in countering corruption because of their participation in it, etc.

The report *Countering Corruption in Bosnia and Herzegovina 2001 – 2011* provided an overview of the state and dynamics of corruption and anti-corruption developments in Bosnia and Herzegovina during the period 2001 – 2011. The report built on the local insight of the Center for Investigative Reporting in Sarajevo, and the experience of CSD in monitoring corruption and anti-corruption trends in Europe. The findings were based on the *Corruption Monitoring System*, a state of the art tool for monitoring the dynamics of corruption at a national level developed by CSD. The report noted that concerns over persistent corruption among key institutions like the police, customs, and certain ministries remained prevalent among citizens in Bosnia and Herzegovina. Notwithstanding some signs of progress in the fight against corruption, two major deficits in countering corruption were evident in the country: insufficient political will and little evidence of corruption-related justice. Both of these contributed to the public's growing distrust in Bosnia and Herzegovina's institutions. Corruption pressure from the public administration increased in the past decade, while society grew more disillusioned with the continuing inability of public institutions to tackle corruption effectively.



*From left to right: Mr. Ruslan Stefanov, Director of the Economic Program at CSD and Mr. Dino Jahic, Deputy Editor at CIN*

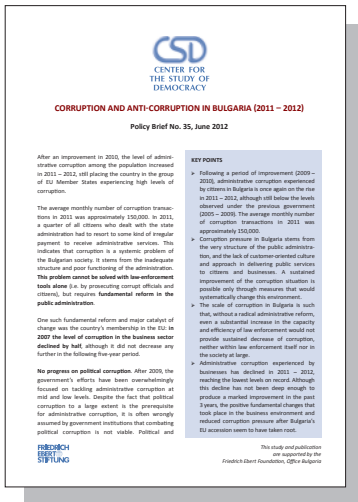
CSD and Friedrich Ebert Foundation organized a public discussion to present the latest data on Bulgaria from the *Corruption Monitoring System (CMS)* on 24 September 2012 at the Bulgarian Telegraph Agency. Experts from the Center discussed multiple dimensions and **trends of corruption in Bulgaria for the period 1998 – 2012**, including sources of corruption and institutional responses. Attention was also paid to anti-corruption measures and more specifically, to two main priority areas in countering corruption: first, the need of undertaking an **administrative reform**, which would serve as a basis for the creation of professional state administration, better guarded against political pressure and with management that did not change every four years; and secondly, the need to enhance the **investigative** function of the Bulgarian state authorities, an area in which Bulgaria has very low capacity.

CSD's policy brief *Corruption and Anti-Corruption in Bulgaria (2011 – 2012)* incorporated the data of the dynamics of corruption in Bulgaria for the past two years, based on the results from the latest Corruption Monitoring System (CMS), designed and developed by the CSD and Vitosha Research. CMS combines significant research and powerful anticorruption advocacy potential, measuring the actual level and trends in the spread of corruption in the country, as well as identifying public attitudes and expectations.

After an improvement in 2010, the **level of administrative corruption among the population increased in 2011 – 2012**, still placing the country in the group of EU Member States experiencing high levels of corruption. The average monthly number of corruption transactions in 2011-2012 was approximately 150,000. In 2011, a quarter of all citizens who dealt



*Presentation of the latest Corruption Monitoring System data. From left to right: Mr. Ruslan Stefanov, Director of the Economic Program at CSD; Dr. Pentcho Houbtchev, Project Coordinator, Friedrich Ebert Foundation for Bulgaria; Mrs. Regine Hubert, Director of Friedrich Ebert Foundation for Bulgaria*



reform, even a substantial increase in the capacity and efficiency of law enforcement would not provide sustained decrease in corruption, neither within law enforcement itself nor in the society at large. Data also showed that throughout the years, different Bulgarian governments did not manage to build a systematic corruption counteraction, as anti-corruption measures had usually been politicized and strongly affected by the respective political environment. State administration remained the main source of corruption, while the resistance from the population diminished. Moreover, political hires in state administration hindered the effective investigation of corruption.

with the state administration had to resort to some kind of irregular payment to receive administrative services. This indicated that corruption was a systemic problem of the Bulgarian society. The scale of corruption in Bulgaria was such that, **without a radical administrative**

### III. Civil Society

In 2012 CSD continued its commitment to enhancing the environment for the development of the Bulgarian civil so-



*Mr. Todor Yalamov, Senior Analyst at the Economic Program, CSD, at the round table “Strategy for Registration Reform: 10 Years Later”*

ciety. CSD aims at designing and advocating a good governance reform for the civil society in Bulgaria. In the past CSD has identified alarming threats and risks to civil society development, such as **civil society capture** by politicians and public administration, low transparency associated with mixing not-for-profit and for-profit activities of NGOs and deficiencies in the NGO registration process. The Center had several specific policy impacts on the Bulgarian civil society development in 2012.

CSD organised a round table on the topic “Strategy for Registration Reform: 10 Years Later” on 18 October 2012. CSD presented the collaborative effort between the Economic and Law Programs of the Center in preparing an *Updated Strategy for the Establishment of a Central Electronic Register of Legal Persons and an Electronic Registries Center of Republic of Bulgaria*

to representatives from the Ministry of Justice and other government agencies, prominent legal professionals, experts in the area of information technology, representatives of non-governmental organizations and the media.

Mr. Todor Yalamov, Senior Analyst at the Economic Program of CSD and a civil society development expert, addressed the problems associated with the registration of non-governmental organizations (NGOs). The lack of transparency, as well as the existence of numerous individual registries of libraries, school boards, sports clubs, participation of municipalities in NGOs, etc., which often lack adequate data on finance and participating persons, were identified as major problems. Therefore, next to the objective of proposing a comprehensive registry reform in Bulgaria, in 2012 the Economic Program of CSD set the

grounds for improving the operation of several NGO registers (register of public benefit NGOs at the Ministry of Justice, register of “chitalishtes” – special type of NGOs at the Ministry of Culture, registers of NGOs with municipal participation that should be maintained at municipality level and others); proposing legislative changes in the NGO law, Law on Chitalishtes and other laws that govern specific types of NGOs to improve their governance, transparency and accountability; and raising awareness on cases of civil society capture and misuse of public funds, threats and risks to civil society development in Bulgaria.

Based on a request by CSD, the Regional Governor of Varna Region sent an instruction to all Mayors and Chairs of Municipal Councils to provide information on how they abide by the requirements of the Law of Municipal Ownership and in case they did not fulfill the requirements, to do so as soon as possible. In addition, the Municipality of Gabrovo already launched a register of NGOs. It was agreed that the Municipality would work on an integration of public registers within the municipal GIS system that would provide free and value added services to citizens.

Two working meetings and discussions with the active contribution of Mr. Todor Yalamov, Senior Analyst at the Economic Program, also contributed to the policy impact of CSD on the Bulgarian civil society. At the first meeting, representatives of the Ministry of Transport, Information Technologies and Communication and the Deputy Mayor of Gabrovo discussed how the Ministry could assist Gabrovo municipality in aggregating information from various registers (public and administrative) in order to design new services (public and internal administrative) that are aligned with Open Data trends and provide higher transparency in mu-

nicipality work. The second working discussion was held with the participation of the Deputy Mayor of Shumen Municipality, together with Lubomir Kutin and Todor Yalamov from CSD, to discuss plans on how the municipality could increase its capacity in terms of NGOs` registration and governance.

In addition to its efforts in Bulgaria, CSD was able to leverage its expertise in the NGO sector and civil society capture in the region of South-East Europe. Mr. Todor Yalamov participated in a capacity-building two-day workshop for NGOs and investigative journalists in Sarajevo, Bosnia and Herzegovina. The workshop was organized by the local Center for Investigative Journalism and CSD, and covered the topics of anticorruption and good governance of civil society. Major findings of the project were shared and the conclusion was that similar problems exist in Bosnia and Herzegovina and that it is necessary to build a central NGO register, as currently there is no adequate information on NGOs and their activities.

#### **IV. Competitiveness and the Knowledge Economy**

CSD continued its commitment towards strengthening the competitiveness of the Bulgarian economy and fostering the potential of the country's national innovation system.

Experts from the Economic Program actively contributed for the development and publication of the latest annual edition of *Innovation BG 2012: ICT and Innovation Demand* report. The study is the most reliable national assessment of the Bulgarian innovation environment. Drawing on the latest international theoretical and empirical research, and taking into account the multidimensional landscape of the specific economic, polit-

ical, cultural, and institutional environment, the report analyses the functioning of the Bulgarian innovation system. The study examines the most pressing challenges and provides plausible recommendations for the further development of the national innovation system. The report makes in-depth observation and analysis of the latest trends in innovation financing and support instruments. In addition, the study pays special attention to the development of the Bulgarian entrepreneurial environment and human capital for innovation. The 2012 report provides thorough analysis of the Bulgarian Information and Communication Technologies sector, as the main driver of the national innovation system. The latest *Innovation BG* report assesses the ICT sector in terms of its production and productivity, and research and development potential. The study also provides for specific policy recommendations for the development of the sector.



In 2012, the Economic Program continued to closely monitor relevant trends and factors that shape the competitiveness of the Bulgarian economy and its development, compared to other economies. CSD is official partner for Bulgaria of the

World Competitiveness Center at IMD (International Institute for Management Development), Switzerland. The previous six issues of the Yearbook had a direct impact on the Bulgarian competitiveness policy-making, and were quoted in strategic policy documents of the Bulgarian government. International investors monitor very closely the IMD competitiveness ranking. The IMD World Competitiveness Yearbook 2012 assessed Bulgaria's competitiveness in comparison to 59 leading national and regional economies.



CSD presented the annual results of the 2012 IMD World Competitiveness Yearbook on 1 June 2012. In the overall ranking, the country was placed at rank 54, while in the region of Europe, Middle East and Africa, Bulgaria ranked 34th among 37 economies. The country improved its performance in the areas of public finance, fiscal policy and international trade. However, Bulgaria's competitiveness profile continued to be characterized by notable disparities and lack of harmonization between the various indicators.

According to the study, in Europe, only Greece, Ukraine and Croatia trailed be-

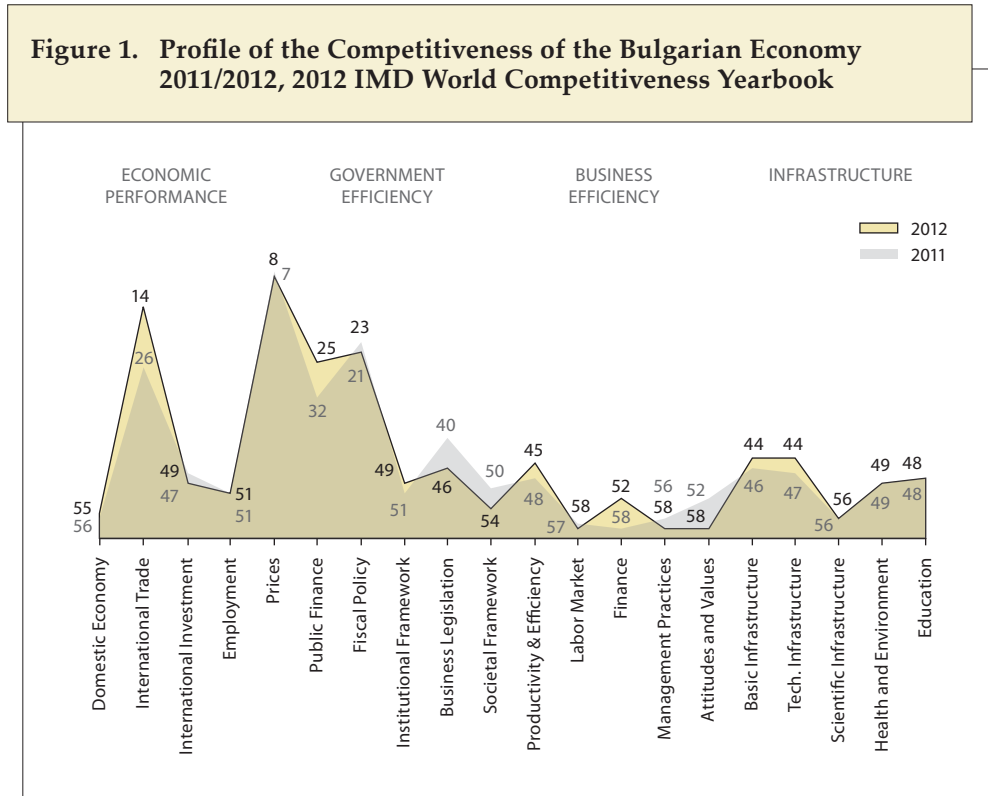
hind Bulgaria. The ranking was headed by Hong Kong and the USA.

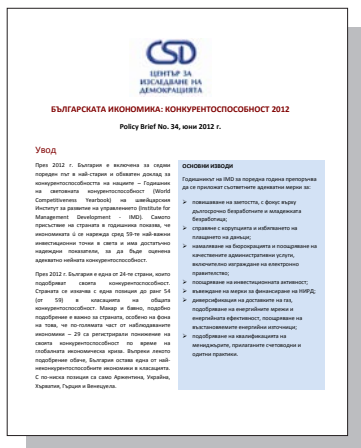
The Bulgarian position in the 2012 World Competitiveness Yearbook is a consequence of historical accumulations and policy difficulties during the global economic crisis. The lack of reforms and adequate actions with regard to basic and scientific infrastructure, as well as to education and healthcare, during the last two decades and more importantly, during the years of intensive economic growth between 2003 and 2008, led to the worsening of the country's competitiveness – a trend which would be difficult to reverse. The strongly polarized political opposition and the ambiguity of long-term competitiveness policies in 2011 and 2012 caused additional uncertainty in the perspectives of the busi-

ness sector. The country's 2012 position raised many questions about the long-term viability of the Bulgarian economy, questions that have to be considered together with the discussed anti-crisis policy measures.

The conclusions of the 2012 World Competitiveness Yearbook were included in a policy brief, prepared by CSD, aimed at informing media representatives and other relevant stakeholders. Apart from the 2012 World Competitiveness Yearbook data, the policy brief identified the **most pressing challenges and measures for increasing the competitiveness of the Bulgarian economy**, including:

- Raising professional qualification with a strong focus on long-term





- Creating an adequate framework for science, technology and innovation activity – most notably a transition from price competitiveness to innovation competitiveness;
- Diversifying gas supply, improving energy grids and energy efficiency, as well as adequately regulating the development renewable energy sources (RES) in the country.

With an outlook towards strengthening the Bulgarian competitiveness in times of economic crisis, CSD took every opportunity to meet and discuss relevant issues with prominent experts in the fields of economics, finance and competitiveness. On such an occasion, on 16 March 2012, the Center held a discussion with special guest Professor Kevin Dowd, Emeritus Professor at the University of Nottingham and Visiting Professor at the Pensions Institute, Cass Business School, City University

unemployed and youth unemployment;

- Curbing corruption and tax evasion;
- Reducing bureaucracy and promoting quality of administrative services, including the development of comprehensive e-government;



*Professor Kevin Dowd at a discussion of competitiveness held at CSD on 16 March, 2012*



London. Professor Dowd is an economist and financier, renowned for his work and intensive publication in the areas of evaluation and management of financial markets' risks. During the discussion Professor Dowd examined the Basel regulation system and underlined the characteristics and risks of regulatory capture – the influence of the big financial institutions on their regulators. According to him senior bankers should be held liable to the society, in order to ensure the long-term stability of the institutions they govern.

During the course of 2012, CSD continued to present its publications through the Stockholm Network. The Stockholm Network provides cooperation platform to more than 130 market-oriented European think tanks.

## V. Monitoring of the Impact of the European Funds in Bulgaria

CSD is a member of the Consultative Council on EU Funds, part of the Committee on European Affairs and Oversight of the European Funds (CEAOEF) to the Bulgarian Parliament. Since 2010 it is also part of the network for expert evaluation of EU Cohesion Policy formed by DG Regional and Urban Policy. As part of the network CSD continued to analyze the **impact and the absorption effectiveness of the EU Funds in Bulgaria**. CSD's work within the network included the preparation of one thematic report on the influence of EU Structural Funds in a specific area and one on the general progress of EU fund's impact evaluation within the country.

The thematic report focused on **EU-funded financial engineering instruments** (FEIs) available to Bulgaria. JEREMIE and JESSICA are the two European initiatives, providing EU

funding for the use of FEIs in the country. Due to slow structuring and implementation, only one of the available FEIs was operational in 2012 (The First Loss Portfolio Guarantee, or FLPG, under the JEREMIE initiative), while several other Funds were in a state of capitalization and initial formation. Interviewed experts cited several key advantages for using FEIs rather than grants in Bulgaria, such as better risk sharing, higher leveraging of public funds, more flexibility, partnership with local financial institutions, and better access to development capital for SMEs. Despite the potential benefits of FEIs, however, traditional grant financing remained the predominant form of European funds' disbursement in Bulgaria in 2012. This was mostly due to the lack of indigenous experience with FEIs but also to the fact that most of Bulgaria's funding in the 2007 – 2012 period had been in the public infrastructure area, which is less suitable for FEIs. In 2012 Bulgarian market for FEIs was still underdeveloped, while the general level of expertise and understanding, when it came to financial engineering, was low.

The general country report discussed in-depth the **achievements of EU's Cohesion Policy in Bulgaria in 2011 and 2012**. During the last year the absorption of EU funds in Bulgaria accelerated. The share of contracted funds increased to 84 % by August 2012. The funds, paid out to beneficiaries, under the seven operational programs (OPs) almost doubled – from 14 % (31 July 2011) to 26.3 % (1 September 2012). In pursuing better implementation and increased efficiency, the last two years were marked by a particular increase in the conducted evaluations and assessments of OPs in Bulgaria. Reassignment of funds within the programs was also a popular measure with regard to fostering implementation and avoiding losses of program funds.

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In 2012 the Economic Program of CSD continued to **enhance its organizational capacity**, expanding its permanent staff with two additional analysts. In addition, the Economic Program further

developed its work with young and upcoming professionals, hosting 9 interns, who contributed to a more vibrant work team.