

Economic Program

2009 Highlights

In 2009 the Economic Program focused its efforts on two thematic areas: (1) hidden economy, anticorruption and good governance, and (2) innovation, knowledge economy and competitiveness.

- **Hidden economy.** The *Hidden Economy Index* for 2009 was updated. CSD organized two round tables, dedicated to the new trends and methods for assessing the hidden economy, as well as the policies, necessary for limiting its negative impact during a crisis.
- **Anticorruption.** In collaboration with other representatives of the NGO sector, the Center for the Study of Democracy elaborated an analysis on the implementation of the Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006-2008.
- **Money laundering.** In 2009 experts from the Economic Program initiated the development of a Money Laundering Investigations Manual. A working group, including all stakeholders and relevant institutions, is elaborating the manual. It is designed to support the practical work of law enforcement in the country in tackling corruption and organized crime.
- **Mobilizing civil society to prevent and detect conflicts of interest.** In 2009 the Economic Program of the Center for the Study of Democracy expanded its work on the disclosure and prevention of conflicts of interest at the highest levels of power.
- **Innovation, knowledge economy and competitiveness.** CSD's Economic Program participated in the writing and presentation of the annual report *Innovation.bg 2009: The Bulgarian Innovation System in a Time of Global Economic Crisis*. The report analyses the state of the national innovation system and gives recommendations for improving the innovation potential of the Bulgarian economy. In 2009 with the cooperation of the Center for the Study of Democracy Bulgaria was included for a fourth time in the most prestigious annual competitiveness ranking – IMD World Competitiveness Yearbook 2009. This year Bulgaria was ranked 38th among 57 economies.
- **Good governance in the energy sector – diversification and security.** The Economic Program prepared recommendations in support of public policies in the area of energy regarding: (1) diversification and security of the Bulgarian energy sector; (2) the Bulgarian Energy Strategy till 2020; (3) the general regulatory framework of EU green policies; (4) current issues and challenges related to the high-level meeting on climate issues in Copenhagen

and the possible positions and options for the European Union and Bulgaria. The analyses underline that recent shifts in the world's economy, regional dynamics, and geo-political situation are the driving factors necessitating the introduction of major reforms in the Bulgarian energy sector focused on transparency, diversification, and efficiency.

I. Hidden Economy, Anticorruption and Money Laundering

In 2009 the Economic Program continued its work on monitoring policies in the areas of hidden economy and anti-corruption. The Center for the Study of Democracy, organized a seminar on the new trends in measuring the hidden economy during economic crisis (27 February 2009). The objective of the seminar was to gather expert opinion, information and materials for a forthcoming publication on the hidden economy, as well as for future public discussions. CSD experts presented the *Hidden Economy Index* and the possibilities and limitations of this particular approach in assessing the phenomenon.

New challenges in this regard include:

- Developing a system of indexes and key indicators by which to monitor and assess not only the manifestations of the hidden economy, but also the effectiveness of public policies and programs aimed at its control;
- Measuring the degree of achievement of the objectives set by international and national institutions and the concrete results in limiting the hidden economy;
- Improving the ability to make international comparisons and to monitor the dynamics of hidden economy in various sectors, thematic and territorial scope.



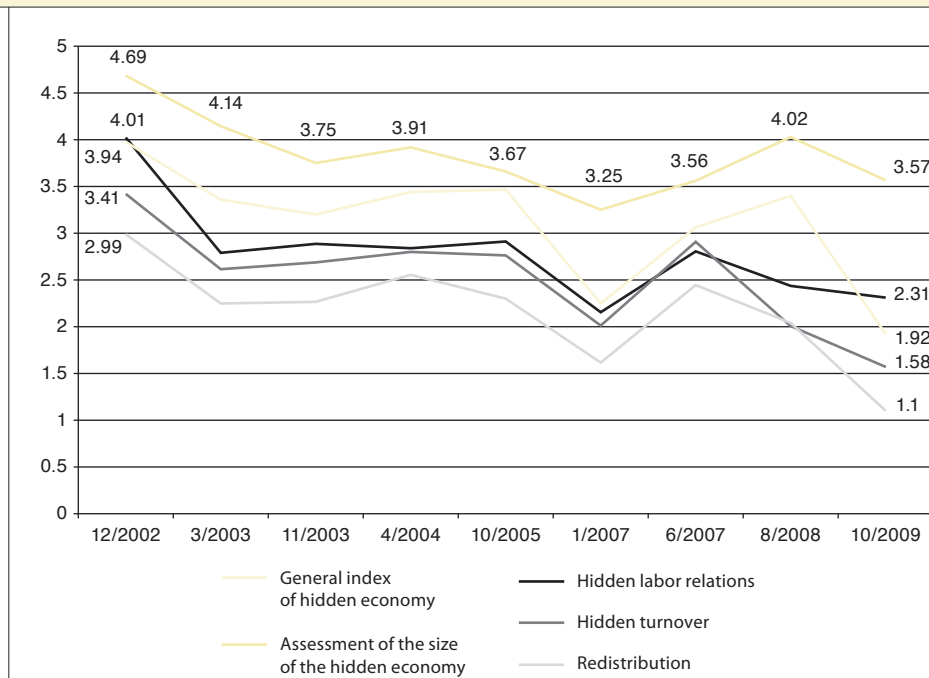
*Mr. Ruslan Stefanov, Coordinator of the Economic Program,
Center for the Study of Democracy*

Experts also presented the elements of successful public initiatives for limiting the hidden economy – the introduction of compulsory registration of labor contracts in 2003, coupled with increased compliance control by the Ministry of Labor and Social Policy, as well as with efforts at reducing the hidden economy in other policy areas. It is necessary to examine hidden economy at sectoral level, its networks and functional mechanisms. A negative trend was also outlined – sudden and politically motivated personnel changes in key control agencies and the respective decline of their control capacity. CSD experts highlighted the necessity of legal amendments to better regulate the financing of political parties, which would put downward pressure on hidden economy financial flows. The par-

ticipants put an emphasis on the importance of the relationship between good corporate governance and transparency of private companies.

The Center for the Study of Democracy and Friedrich Ebert Foundation organized the annual round table *The Hidden Economy in Bulgaria: Policy Responses to the Economic Crisis* (10 December 2009). During the event experts from the Economic Program presented the updated indexes of the hidden economy for 2009 and commented on the efficiency of public policies to reduce its manifestations in Bulgaria. Participants at the round table discussed the policies for overcoming the economic crisis and for administrative reform and their impact on the hidden economy.

Figure 2. Hidden Economy Index 2002 – 2009



According to the data in 2009 the *Hidden Economy Index* for the business sector and the unreported economic activity of the population, displayed two opposing trends. While the business index showed an overall decline of gray practices over the previous year, the value of the population index increased. This seemingly contradictory dynamic could be explained by the effects of the crisis and the strict measures taken by the government to counter the hidden economy in the second half of 2009 – measures targeted mainly at hidden business turnover. In the short run the effects of the crisis weighed in a different way on the population and the business, which led to increased hidden turnover and employment reported by the population and reduced hidden economy reported by the business.

The transition from formal to informal economy was associated with much less cost, i.e. was easier for the population than for the business.

Representatives of the Center for the Study of Democracy took part in a national round table (31 March 2009), organized by the Council of Ministers to review progress in the implementation of The Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006 – 2008. CSD experts presented the main conclusions of an analysis on the coordination and control activities of the Commission on Prevention and Counteraction of Corruption (CPCC) during the implementation of the Strategy. According to the analysis during the period 2006-



Round Table: The Hidden Economy in Bulgaria: Policy Responses to the Economic Crisis (10 December 2009). From left to right: Mr. Traicho Traykov, Minister of Economy, Energy and Tourism, Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, and Mr. Rosen Plevneliev, Minister of Regional Development and Public Works

2008 the Commission has drawn regular reports for the implementation of anticorruption measures. These reports, however, were mainly descriptive and had limited analytical or assessment functions. The experts highlighted the importance of regular monitoring on the efficiency of anticorruption measures and the degree of implementation of the Strategy. Anticorruption priorities and policy are still not concrete enough and CPCC cooperation with NGOs is implemented sporadically. The experts recommended an increase of the Commission's administrative capacity, the establishment of an independent Secretariat to the Commission, securing its activity with additional funds and an increase of the publicity of its anticorruption measures.

The representatives of the NGO sector presented their analyses and comments on the implementation of the Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006-2008. According to them the majority of the anticorruption measures in the strategy are implemented only formally. In this context the participants recommended the number of measures to be reduced and their expedience and effectiveness increased in the next strategy. They also recommended greater consistency of the measures, increase of the cooperation between the central and local administrations, and more efficient management of the information coming from external whistleblowers.



From left to right: Mr. Ruslan Stefanov, Coordinator of the Economic Program at the Center for the Study of Democracy, Mr. Zdravko Sechkov, Director of Foundation for Local Government Reform, Mr. Roumen Yanovski, Project Coordinator at Access Foundation, Ms Meglena Plugchieva, Deputy Prime Minister of the Republic of Bulgaria, Mr. Miklos Marschall, ECA Regional Director at Transparency International, Ms Diana Kovacheva, Executive Director of Transparency International – Bulgaria, and Ms Anelia Damianova, Senior Expert at the Center for Economic Development

In 2009 the Economic Program initiated a project to develop a *Money Laundering Investigations Manual*. In order to facilitate the project implementation, CSD formed a task force including representatives of the Center, the Supreme Prosecutor's Office of Cassation, the National Investigation Service, the State Agency National Security, the Ministry of Interior and the Commission for Establishing of Property Acquired from Criminal Activity. The manual provides guidance on topics such as: money laundering methods most often employed by criminals, national and international legislation, incl. application of the Law on Forfeiture to the State of Property Acquired through Criminal Activity, methods for preparing and implementing international cooperation in financial intelligence, collection and analysis of information on money laundering, and judicial practices. The manual outlines some real-life examples of money laundering and their investigation in Bulgaria.

In 2009 the Economic Program of the Center for the Study of Democracy extended its work on the topic of disclosure and prevention of conflicts of interest at the highest levels of power. In addition to the analytical expertise and provision of policy recommendations, this year CSD has also substantially committed to advocacy. As pointed out in CSD's latest corruption assessment report *Crime without Punishment*, with the enactment of the Law on Preventing and Detecting of Conflicts of Interest a policy coalition emerged trying to sabotage the implementation of the law. The Center for the Study of Democracy succeeded in mobilizing civil society organizations, media and political support and prevented the watering down of the law. One of the main outreach instruments of this mobilization effort was Facebook (www.causes.com/coi). In 2009 the Economic Program continued

its work on the analysis of civil society capture by politicians and senior administrators and of changing market conditions for NGOs in Bulgaria. CSD prepared a specialized program for capacity building of journalists and NGOs in order to assist them in exposing conflicts of interest in local governments. The program will be implemented during the first half of 2010.

II. Innovation and Knowledge Economy

The Economic Program continued to support the development of policies in the area of innovation and knowledge economy. Experts from the Economic Program took part in the preparation of the report *Innovation.bg 2009: The Bulgarian Innovation System in a Time of Global Economic Crisis*, which analyses the state of the national innovation system and gives recommendations for improving the innovation potential of the Bulgarian economy. In 2009 the report focused on the global economic crisis. The authors underlined that Bulgaria needs to rethink its economic policy and adopt an integrated strategy





Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy (in the middle) and Mr. Zhang Wanxue, Ambassador of People's Republic of China in Bulgaria (third from the left)

for economic growth based on innovation, technological development and science. The report *Innovation.bg 2009* aspires to provide a reference framework and suggestions for the implementation of such a strategy and points out that Bulgaria needs to use the crisis as an opportunity to mobilize resources for change and economic revival on the basis of new sources of growth.

On 29 April 2009 the Center for the Study of Democracy and the Applied Research and Communications Fund organized a round table on China's Innovation System: State and Perspectives. Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy and Mr. Zhang Wanxue, Ambassador of People's Republic of China in Bulgaria made the opening remarks at the event. Mr. Zhang Wanxue underlined the importance of the high-technology industry zones and the commercial application of the scientific inventions and expertise in China at the present time, as well as in the past. Mr.

Marin Tinchev, Cofounder and Director of Sinova Advisors and PhD candidate at the Tsinghua University in China presented a bird's eye view of China's innovation system. Mr. Tinchev highlighted the fast rate at which China develops its R&D. He described the history and evolution of the Chinese innovation system. He also pointed out that currently the Chinese technology focused universities and innovative entrepreneurs are the leaders in the development of the national innovation environment.

III. Strengthening Sustainable Development in Bulgaria: Good Governance in the Energy Sector

In 2009 the Economic Program focused its efforts on the problems of the Bulgarian energy sector. The latter is of strategic importance for the country's economic development and national security, especially in the context of growing EU and Balkan markets. Experts from the

Economic Program prepared a policy brief on the Bulgarian energy sector *Better Governance for Sustainable Energy Sector of Bulgaria: Diversification and Security*. The policy brief points out that recent shifts in the world's economy, policy, regional dynamics, and geo-political situation are the driving factors necessitating the introduction of major reforms focused on a transparent, diversified, efficient, and market based energy sector in Bulgaria. The country needs to actively participate in the European and international energy debate and to address the whole complex of energy related policies. As possible recommendations for actions to overcome the identified challenges the authors of the policy brief suggest:

- Review and adoption of the National Energy Strategy 2020;
- Ensuring energy diversification;
- Increasing transparency and opening up to all interested investors;
- Establishment of a decision-making process of based on data;
- Taking a proactive stance on EU initiatives.

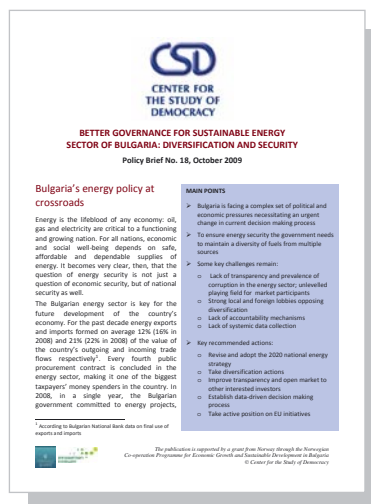
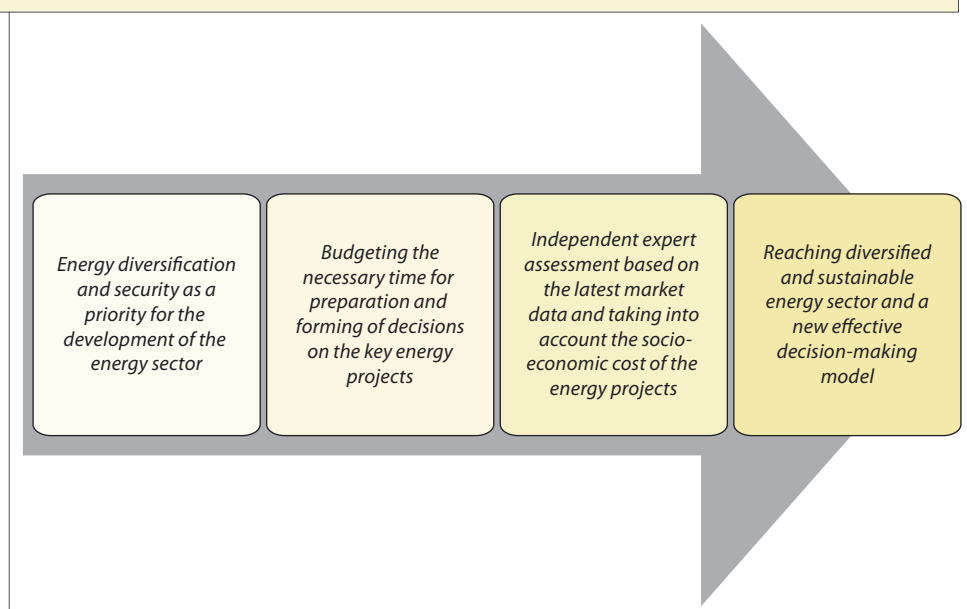


Figure 3. Necessary changes in the methods of evaluation and decision-making regarding major energy projects and the overall strategy of the Bulgarian energy sector development



The policy brief was presented on 5 October 2009 during a round table at the Bulgarian Parliament, dedicated to energy diversification and energy security. The round table was opened by Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, Ambassador Tøve Skarstein, Royal Norwegian Embassy in Bulgaria and Ambassador John M. Ordway, Chargé d'Affaires at the US Embassy in Bulgaria. In his opening remarks, Dr. Shentov called for an open dialogue about the process of energy policy decision-making. Ms. Tøve Skarstein, Ambassador of Norway to Bulgaria, highlighted Norway's readiness to work with Bulgaria on developing knowledge-based strategic approaches to good governance and sustainable energy, based on transparency and alterna-

tive scenarios for reaching the country's energy goals. Ms. Skarstein highlighted the need of prior sober assessment of the social, economic and environmental costs of each scenario, taking into consideration the interests of future generations. Ambassador John M. Ordway, Chargé d'Affaires at the US Embassy in Bulgaria stressed on the importance of energy security and diversity in terms of fuels and suppliers. According to him every monopoly, including in the energy market, would create problems with energy supply and would limit competitive-based pricing power.

Mr. Edward Chow, Senior Fellow at the Energy and National Security Program, Center for Strategic and International Studies, Washington DC pointed out that

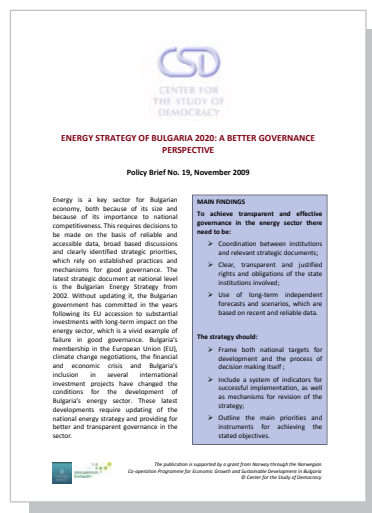


From left to right: Mr. Edward Chow, Senior Fellow at the Energy and National Security Program, Center for Strategic and International Studies, Washington DC, Mr. Traicho Traykov, Minister of Economy, Energy and Tourism, Mr. Martin Dimitrov, Chair of the Economic Policy, Energy and Tourism Committee to the National Assembly, Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, and Ambassador John M. Ordway, Chargé d'Affaires at the US Embassy in Bulgaria

currently the new Bulgarian government, not unlike the U.S. government, is presented with the opportunity to rethink and redirect its energy policy. The energy security is a public good and the government should protect the interests of society. Ms. Tzvetelina Borislavova, Chair of the Supervisory Board of CIBank, noted the growing role of civil society and NGOs in energy policy. She also stressed that it is necessary for Bulgaria to coordinate its efforts and ambitions with those of its European and global partners: improving energy efficiency, flexibility, development of new technologies, security of supply and compliance with environmental standards. Ms. Borislavova called for the development of gas infrastructure and the use of biomass for electricity production. The Swedish Ambassador, Mr. Paul Beijer, the country holding the rotating EU presidency, made the closing remarks at the event. He presented the EU perspective on energy policy. According to Ambassador Beijer the energy policy of each member country should have two focus areas: establishment of an early warning system to support risk management, and improving the internal energy market mechanisms. He stressed that the increase of energy efficiency will directly contribute to the increase of energy security.

Experts from CSD's Economic Program took part at the round table The Energy Strategy of Bulgaria 2020 organized on 23 November 2009 by the Parliamentary Committee on Economic Policy, Energy and Tourism. During the event they presented a second policy brief on *Energy Strategy of Bulgaria 2020: A Better Governance Perspective*. Mr. Ruslan Stefanov, Director of CSD's Economic Program pointed out that the achievement of a transparent and effective governance in the energy sector needs better coordination between government institutions and relevant strategic documents, greater transparency

of the rights and obligations of public authorities, use of independent long-term forecasts and scenarios based on regularly updated and reliable data. The strategy should include a system of performance indicators and mechanisms for its review. It should also set a framework for development objectives and the decision-making process.



In addition to the above mentioned publicly released reports in 2009 CSD prepared two more reports on the future of energy policy in Bulgaria. The first one reviews the overall regulatory framework of EU green policies in relation to the achievement of sustainable development. The second one examines the current issues and challenges related to the meeting on climate change in Copenhagen in 2009 and the possible positions and options for the European Union and Bulgaria.

The report *Copenhagen: Stakes and Options for Bulgaria* presents the current Bulgarian position at the international negotiation table and the major cleavages that obstruct real chances of an accord beyond the Kyoto provisions to be reached at Copenhagen. It subsequent-

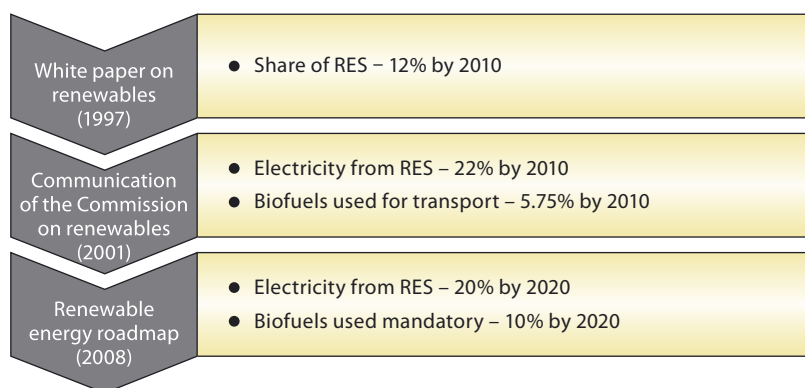
Table 1. Bulgarian instruments for meeting obligations on climate change

Type	Instruments	Concrete steps or opportunities
<i>Legal</i>	Laws and ordinances	Multilateral and bilateral agreements; EU legislation and corresponding national climate change legislation
<i>Financial</i>	Incentives and funding opportunities for promoting carbon cuts among economic agents and improving energy efficiency	Agriculture Fund, Energy Efficiency Fund, EU Structural Funds, Kyoto Mechanisms (Joint Implementation and Emission Trading)
<i>Prescriptive</i>	Strategies and action plans	The Bulgarian National Environmental Strategy and Second National Action Plan (2005-2014)
<i>Publicity</i>	Education and public awareness	

ly shortly outlines the objectives and vision of EU for acting on climate change beyond Kyoto. The analysis touches upon Bulgaria's participation in the process, proposed targets and achievements, best

options for Bulgaria on the forthcoming round of negotiations as well as perspectives for Bulgaria's participation in shaping the EU common position and thus the overall global accord.

Figure 4. Key EU Documents on the introduction of renewable energy sources (RES)



The report *The Green Element in European Sustainable Energy Policies* reviews the historical road to and the concrete dimensions of European regulations related to energy and environmental protection. It is a first endeavour in series of papers to examine EU green legislation, its incorporation in national laws, translation of these measures into rules and practices directing the real state of organization of energy sectors in member states, good practices, and mostly failures in the process of legal adoption and circumvention of common rules, notably in the case of Bulgaria.

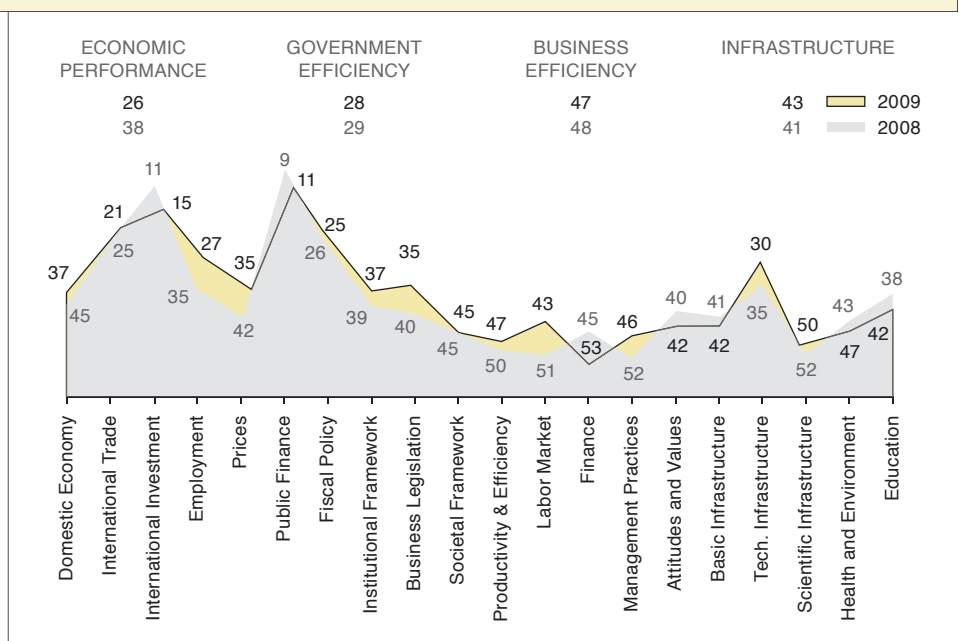
As a result of the talks that followed and presentation of analysis, the Minister of Economy, Energy and Tourism invited CSD experts to participate in a Working Group on the elaboration of indicators for transparency the national energy strategy. The chair of the Working

Group on Transparency of the European Nuclear Energy Forum invited CSD as an independent observers to the group.

IV. Competitiveness

In 2009 with the cooperation of the Center for the Study of Democracy Bulgaria was included for a fourth time in the most prestigious annual competitiveness ranking – IMD World Competitiveness Yearbook 2009. Bulgaria was ranked 38th among 57 economies. Thus Bulgaria is ranked one place higher than 2008, outperforming countries such as Spain, Brazil, Hungary, Turkey, Russia, Italy, Romania, Greece, Croatia and Ukraine. Bulgaria is rated highest on economy efficiency (after dropping from 31st place in 2007 to 38th in 2008, in 2009 it goes up to 26th place). Government efficiency is ranked next (it takes 28th place com-

Figure 5. Competitiveness landscape of Bulgaria, World Competitiveness Yearbook, IMD, 2008 and 2009



pared to 38th place in 2007 and 29th in 2008). The only noticeable downturn is in the area of infrastructure – Bulgaria is rated 43rd among the 57 competing economies (two places lower than last year). Business efficiency, however, is assessed lower than the other three indicators, rating 47th. Nevertheless, it has improved compared to the 54th place in 2008. It should be noted that business efficiency is considered a crossing cutting point of the other three groups of indicators and it depicts the ability of the economy to make a systematic transition towards higher competitiveness.

The Yearbook presents five major challenges in front of Bulgaria in 2009:

- Overcome political instability and uncertainty in the run up and after the general parliamentary elections in July 2009;
- Improve the rule of law to curb gray economy, corruption and organized crime;
- Boost public expenditure efficiency and strategic policy planning and accountability;
- Streamline public administration and public service delivery, via aggressive e-government applications;
- Reform economic policy and increase public spending towards SMEs, research, technological development and innovation, and ICT.

Experts from the Economic Program of the Center for the Study of Democracy took part in the elaboration of the fourth economic report, commissioned by the President of Bulgaria: *The Global Financial and Economic Crisis and Bulgaria, Chapter 4: Bulgarian Competitiveness in the Light of the Global Financial and Economic Crisis*. The chapter cites data from the IMD World Competitiveness Yearbook and points out the Bulgarian competitive advantages and disadvantages. The authors make recommendations for improving the competitive position of the country in the short and long term. The report provoked wide public debate and CSD Chapter 4 was cited as one of the successful cornerstones of the report.