

Economic Program

In 2013, the Economic Program focused its work on the following strategic areas:

- **Energy Security and Sustainable Development.** CSD published the *Energy Security Risk Index* for Bulgaria. It is currently developing a national index designed to become a regular policy-monitoring tool. Through policy briefs and media notes CSD continued to raise awareness on energy related issues such as energy poverty and consumer electricity pricing.
- **Anticorruption and Hidden Economy.** Partnering with sixteen civil-society organizations from nine countries in Southeast Europe, in 2013 the Economic Program re-launched the *Southeast European Leadership for Development and Integrity network (SELDI)*. As a member of the European Commission's Network of Local Correspondents on Anti-Corruption, CSD contributed towards the first EU Anti-Corruption Report.
- **Civil Society.** Efforts to promote reforms for a better governance of the Bulgarian civil society sector continued with a number of public discussions and round tables on the role of the sector in the culture and education sectors and on the state of the democratic institutions in the context of social unrest and protest rallies in Bulgaria and the Balkans in 2013.
- **Competitiveness and the Knowledge Economy.** The Economic Program contributed to the development of the 2013 edition of the *IMD World Competitiveness Yearbook* and the annual assessment of innovations in the Bulgarian economy.
- **Evaluation of the Impact of the European Funds in Bulgaria.** As part of the network for expert evaluation of EU Cohesion Policy, CSD contributed to the thematic report *Job Creation as an Indicator of Outcomes* and the *Country Report on Achievements of Cohesion Policy in 2012 – 2013*.

I. Energy security and sustainable development

The energy sector plays a key role in the Bulgarian economy. It concentrates sizable state and private financial and human assets. It is dominated by regulated state-owned and private monopolies, providing a favourable environment for pervasive private political and economic vested interests, fraud,

corruption, and disregard of state and consumer interests. The consequences of bad governance are enhanced by a lack of clear strategic and legal framework. Bulgaria's EU membership, and the increasing role of the European Commission in forming a common energy policy based on market liberalization, energy efficiency and sustainable energy, creates the opportunity for adopting better governance practices



Mr. Steve Eule, Vice President of the Institute for 21st Century Energy, U.S. Chamber of Commerce, during the Energy Security of Bulgaria: European and International Framework round table

and opening up of the Bulgarian energy sector.

In 2013, CSD continued enhancing its research and advocacy efforts for improving the governance of the Bulgarian energy sector towards a transparent and sustainable economic development. Public debates with the participation of renowned experts aided the identification of innovative, rational, and feasible perspectives for the future of the sector.

A round table on “Energy Security of Bulgaria: European and International Framework” was held on 7 June 2013. Mr. Steve Eule, Vice President of the Institute for 21st Century Energy, U.S. Chamber of Commerce was the keynote speaker of the event. Mr. Eule presented the *Index of US Energy Security Risk*, which uses 37 metrics to identify the policies and other factors that con-

tribute positively or negatively to U.S. energy security and forecast the development of the sector. He also discussed the *International Energy Security Risk Index*, which was developed in order to compare the US to other countries. In this index **among the top 75 energy-consuming countries Bulgaria ranks 71 st.** and this is the **result of the high levels of energy intensity, dependence on imports for much of the energy needs of the country, and high expenditures in the sector.** Mr. Eule outlined the benefits of the shale gas revolution to the US economy emphasizing that it has significantly reduced its energy security risk, while lowering natural gas prices, which are no longer dependent on crude oil prices. Mr. Gerhard Reiweger, the Ambassador of Austria to Sofia, emphasized the importance of improving energy efficiency and reducing energy demand instead of rely-



Mr. Ruslan Stefanov and Mr. Martin Tsanov present CSD's findings during the Press Conference "Bulgaria's Energy Security Risk Index"

ing on fossil fuels. Mr. Thomas Pfanne, Economic Counsellor at the German Embassy in Sofia, noted that climate change should remain a key priority for the EU and that developing renewable energy sources should take precedence over extracting fossil fuels.

In two separate events, a press-conference on 25 September 2013 and a policy briefing for the country's diplomatic corps, organised on 26 September 2013, CSD **presented Bulgaria's results in the International Index of Energy Security Risk (IIESR)** of the Institute for 21st Century Energy at the American Chamber of Commerce. The Economic Program aims to develop a **national index** and advocate to make it a regular **policy monitoring tool**. The index is a useful tool to identify energy security risks and can be used to develop policy recommendations aimed at improving energy security. The most important message from the pilot presentation of the index for the country was that policy makers should aim to **reduce import dependence and increase the number**

of fossil fuel suppliers, use local and renewable energy resources and reduce overall demand by using more energy-efficient technologies. Among the main challenges Bulgaria faces are energy expenditure volatility and fossil fuel import expenditure in relation to GDP, which reflect its reliance on imports from very few suppliers, as well as the country's very low incomes and high, energy poverty rates.

The Policy Brief *Bulgaria's Energy Security Index*, based on the *International Index of Energy Security Risk (IIESR)* of the Institute for 21st Century Energy at the American Chamber of Commerce, points out that since 1980, **Bulgaria has had one of the worst energy security risk index scores both nominally and compared to the OECD averages** and was ranked in 73rd place in 2012. Its scores over the period averaged about 158 % higher than those for the OECD. **Bulgaria's energy security risk index has increased since 2010.** This recent deterioration relative to OECD averages is based on the energy expenditure vola-

tility of the Bulgarian economy that has increased more than 10 times in the last 3 years (since 2009), reaching in 2012 one of the highest levels since 1980. Among the main risk factors to Bulgaria's energy security is its **high dependence on fossil fuels import**, in particular in the gas sector. The very high concentration of the Bulgarian gas market (monopoly of supply and distribution) provides ample opportunities for rent-seeking. Bulgaria's involvement in various national, smaller regional, and large international projects can reduce the risks to its energy security if it is based on clear-cut prioritization of preferred options following sound and transparent cost-benefit analysis.



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BULGARIA'S ENERGY SECURITY RISK INDEX

Policy Brief No. 40, September 2013

1. Measuring energy security: significance and policy implications

1.1 Quantifying energy security

Energy is a fundamental component of economic growth and development around the world, and despite the global financial crisis, in a global scale energy demand has continued growing in recent years. Energy security continues to be a major concern for most countries and/or economic blocks because key resources are limited and there is relatively little overlap between the leading energy producers and the major consumers. Therefore, most countries rely on international trade, which is vulnerable to economic disruptions, and political interventions. Markets for energy resource commodities have increasingly globalised, and events anywhere in the world can affect global supply and prices, even for self-sufficient economies. Energy security risks, therefore pose serious challenges on a global level. But each country and region faces and perceives energy security in a specific manner. **Adequately lacking energy security is a challenge that relies upon precise understanding and quantifying the dimensions of energy security on national, regional, and international level.** In the case of Bulgaria this requires

MAIN POINTS


- Energy security is of critical importance to Bulgaria. The biggest identified threat to Bulgarian national security is poverty, and in particular energy poverty. Bulgaria's non-transparent energy sector seriously undermines the country's economic development. Establishing regular sound monitoring mechanisms on energy security could be key for adequate policy-making in the area.
- The Index of U.S. Energy Security Risk Indicator (ESRI), developed in 2012 by the Institute for 21st Century Energy at the American Chamber of Commerce shows that since 1980, Bulgaria has had one of the world energy security risk index scores both nominally and compared to the OECD averages. Its scores over the period averaged about 150% higher than those for the OECD.
- Bulgaria's energy security risk index increased since 2010. This recent deterioration relative to OECD averages is based on the energy expenditure volatility of the Bulgarian economy that according to ESRI has increased more than 10 times in the last 3 years (since 2009), reaching in 2012 one of the highest levels since 1980).
- Among the main risk factors to Bulgaria's energy security is its high dependence on fossil fuels import, in particular in the gas sector. The very high concentration of Bulgaria's energy market (monopoly of supply and distribution) provides ample opportunities for rent-seeking. Bulgaria's involvement in various national, smaller regional, and large international projects can reduce the risks to its energy security if it is based on clear-cut prioritization of preferred options following sound and transparent cost-benefit analysis.

This publication is supported in part by a grant from the Open Society Foundations

2013 was marked by wide social discontent, including street rallies against the state of governance in the Bulgarian energy sector and the high prices of electricity for consumers in particular. CSD continued its efforts to increase the awareness of the Bulgarian citizens on the governance of the energy sector and the underlying processes, directly

affecting Bulgarian households, by issuing a series of energy related media notes to the Bulgarian media to better inform public opinion and to dispel myths from building up in society.

The Media Note *Why Electricity Bills in Bulgaria Spoiled the Party* argues that the so-called "green" premium – a market entry subsidy for renewable energy sources – was conveniently chosen as the only culprit for increases to the electricity bills in 2012. In this way Bulgarian politicians and energy regulators tried to divert consumer attention from the fact that a substantial part of their bills had been determined by a "bad governance" premium, a result of a series of opaque policy decisions, delayed reforms, waste of public resources, and numerous publicly documented irregularities and corruption allegations.



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Why Electricity Bills in Bulgaria Spoiled the Party

Media Note

A number of market factors caused an increase of electricity bills in Bulgaria during the last year:

- the pricing boom of non-renewable energy sources on a global scale;
- the high preferential prices encouraging the inclusion of new energy sources to the mix;
- the sizable investments necessary for renovating the outdated grids and energy systems;

Yet there are also the considerable expenses, directly resulting from:

- the bad management of the state-owned enterprises;
- negotiated rents or rents guaranteed through monopolies;
- financial abuse, waste of energy, etc.


The so-called "green" premium - a market entry subsidy for renewable energy sources - was used as a convenient explanation for recent increases to the electricity bills in 2012. However, as time went by, consumers realized that a substantial part of their bills has been determined by another expense - the "bad governance premium", which, together with the forthcoming parliamentary elections and the increase of energy consumption during the winter, led to the ascent of social discontent and a search for new culprits for the surge in prices.

The bad news is that, as energy prices in Bulgaria are the lowest in the European Union, the liberalization of the market will likely lead to a further increase in electricity prices for Bulgarian households. The good news is that price escalation can be delayed through extending the life of currently existing capacities, while the negative effects of future price increases can be decreased by a massive state campaign for refurbishment and

The media note *Energy Saving Technologies in the Bulgarian Residential Sector* also highlights the surge in energy poverty in the country, after the electricity prices hike of 13 % in 2012. In fact,

prices have steadily increased since 2005, both in Bulgaria and in the EU. At the same time the note demonstrates that Bulgaria is at least twice as energy intensive as its EU peers, and energy waste is high along the whole chain – from production to consumption. In the context of these developments, the note argues that the Bulgarian authorities should turn their attention towards measures aimed at improving the energy efficiency of buildings, and away from the construction of new generation capacity.

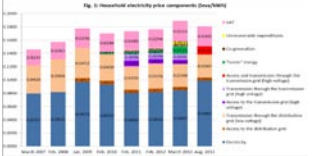
ated freeze on the electricity prices in 2010 ended in their subsequent sharp increase (13 % year-over-year) in 2012 as pressures built up. The focus on the final consumer bill reduction in the public debate overshadowed some of the other structural effects of the decision, which the media note mentioned. Given the very low income levels of Bulgarian households, and the very high social insecurity in the wake of the economic crisis, keeping electricity prices, and in particular their effects on incomes, under check is of paramount importance to the Bulgarian energy and overall security. The note argues that decreasing electricity prices should not be achieved at the expense of the transparency of the decision-making process and the distortion of market signals as has happened in August 2013.


Shedding More Light on the New "Simplified" Electricity Bills
Media note

The decision to decrease by 5% the retail electricity prices as of 1 August 2013 is among the topics at the heart of political debates in Bulgaria this autumn. A similar move in 2010 clearly showed that such a politically mandated price decrease was not sustainable in the long run. It ended in the sharp increase (13% y-o-y) of electricity prices in 2012, and subsequent social unrest, which brought down the Bulgarian government in February 2013. The focus on the final consumer bill reduction in the public debate overshadowed some of the other structural effects of the decision, which are worth mentioning:

- Reducing the number of items reported in the final household consumer bills might as well make them simpler, but it also renders them more non-transparent. Three tariff add-ons for supporting specific types of energy – renewables (or “green”), co-generation, and refurbishment of coal fired power plants have been integrated into the larger “electricity generation” item. This hides important information from the consumers and the public, for example the proportion of the final price, which covers for different types of energy sources (Fig. 1) and how revenues are distributed among the producers of different types of energy, the transmission grid operator, and the suppliers (Fig 2).

Fig. 1: Household electricity price components (BGN/kWh)



Note: The “refurbishment expenditures” tariff refers to the costs of refurbishing the two coal-fired power plants Maritsa East 1 and 2, which are raised through long-term electricity purchase contracts, covered by a surcharge on final consumer electricity bills. The “green energy” tariff refers to the share of the price, which covers the subsidy to the producers of energy generated from new renewable energy sources – wind and photovoltaic. The “co-generation” tariff refers to the share of the price, which covers subsidies for the production of energy from highly efficient co-generation.

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In 2013, CSD started research on Forward Looking Analysis of Grand Societal Challenges and Innovative Policies (FLAGSHIP) in Europe, through which it aims to enhance the Center’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 will 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.

As a result of the wave of social discontent the Bulgarian government has stepped in repeatedly to freeze prices in 2010 and then again in 2013. The decision to decrease by 5 % the retail electricity prices as of 1 August 2013 was among the topics at the heart of political debates in Bulgaria throughout the year. In the media note *Shedding More Light on the New “Simplified” Electricity Bills* CSD reveals such a **politically mandated price decrease is not sustainable in the long run**. The previous political initi-

II. Anticorruption and hidden economy

In 2013 CSD continued to expand its research and policy analysis capacity at national, regional and European level. CSD developed its first background report under the **ANTICORRP** research consortium, analysing corruption progress, institutional development and trends in the fight against corruption in Bulgaria during the past 23 years. The background report on Bulgaria will be incorporated into volume 2 of the ANTICORRP Anticorruption Report in 2014. ANTICORRP is a consortium of 21 European research entities in 16 EU countries to take stock of the existing state of the art and deliver new insights for European anti-corruption policies. As part of the network of local correspondents, of DG Home of the European Commission, in 2013 CSD continued working on the Bulgarian section of the upcoming in early 2014 first EU **Anticorruption Report**.



Due to its negative impact on social and economic development, especially within the context of an ongoing economic crisis, corruption ranks among the most pressing issues in the Southeast Europe region. With the purpose of providing better solutions to the problem of corruption, in 2013 CSD together with sixteen CSOs from nine countries in Southeast Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey) formed the regional network **Southeast Europe Leadership for Development and Integrity (SELDI)**. SELDI is a coalition, whose mission is

to contribute to the development of a dynamic civil society in the Western Balkans and Turkey that would be capable of participating in public debate and exerting influence over the policy and decision-making process in the field of anti-corruption and good governance.

SELDI held its Opening Conference on 5 March 2013 in the capital of Croatia, Zagreb. Mr. Ruslan Stefanov, Director of the Economic Program at CSD and Coordinator of SELDI, presented CSD's *Corruption Monitoring System* and the organization's anti-corruption efforts since 1998. He underlined that corruption continues to be an issue in all countries in South-East Europe. The SELDI network will try to help the local, regional and EU policy-makers to better address the phenomenon. It will also share experience across the countries involved. Ms. Caroline Frieh-Chevalier, Attaché at the EU Delegation in the Republic of Croatia noted that corruption is harmful not only economically and financially, but also socially. It undermines the rule of law and affects the everyday lives of the citizens. The EU accession negotiations present Croatia with an opportunity for the country to increase its anti-corruption capacity, raise awareness and improve its legal framework. Ms. Frieh-Chevalier noted that the **CSO cooperation in fighting corruption is irreplaceable**. According to Ms Violeta Stanicic, Head of the newly opened Information Office of the European Parliament in Croatia, **CSOs are the most important stakeholders in the fight against corruption**. She underlined that in 2012 the Bulgarian CSOs have been extremely active in petitioning the EP. She reminded that 2013 is the year of the European citizens – they should know their rights and be active in protecting their rights, including when corruption is involved. During the discussions, the participants at the conference discussed their experience



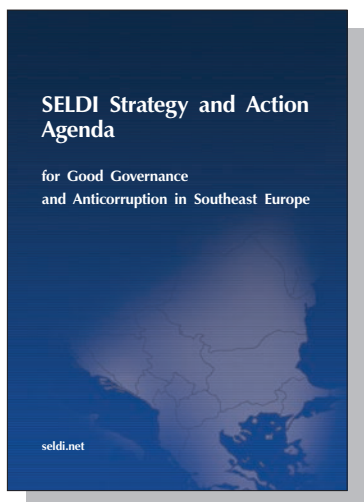
Participants at the Inception Conference of the SELDI network, held in Belgrade, Serbia

in the area of combating corruption and outlined the necessary measures for greater involvement of the civil society, as a catalyst for improving anti-corruption policy *implementation and impact*.

SELDI held an Inception Conference for its civil society anti-corruption effort in the Western Balkans and Turkey in the city of Belgrade, Serbia, as part of an overall meeting of CSO networks supported by DG Enlargement of the European Commission. The network partners, together with governmental organizations, CSOs, international and European Commission representatives discussed various strategically important topics, including anticorruption strategies and institutions in Serbia and Southeast Europe; transparency in public finances; and monitoring of corruption and anticorruption reforms. Special guests at the event were USAID Mission Director for Serbia Ms. Susan Fritz and

Mr. Henk Visser, DG Enlargement, European Commission. They both highlighted the importance of civil society, especially with regard to the variety and comprehensiveness of its impact in all areas.

SELDI adopted its *Strategy and Action Agenda for Good Governance and Anticorruption in Southeast Europe*, which sets the mission and the aims of the CSO coalition until the end of 2016 and outlines the specific actions of the network. The *Strategy and Action Agenda* aims to serve as a blueprint for CSO coalition building, as well as a value statement, which can be used to attract new partners and to inform and motivate other stakeholders. In addition the document puts a focus on improving the environment for civil activism and state-civil society dialogue at regional and national level, on which CSOs and other stakeholders will agree to act upon.



CSD's work within the framework of the SELDI network continued toward increasing the capacity of the initiative to monitor corruption. On 7-8 November

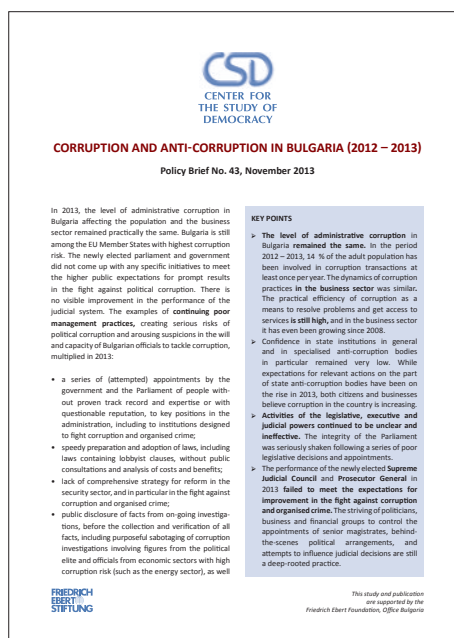
2013 CSD, as coordinator of the SELDI initiative, in cooperation with its local partners from the Macedonian Center for International Cooperation, Institute for Democracy "Societas Civilis" and Ohrid Institute for Economic Strategies and International Affairs held an anti-corruption monitoring training in Skopje. The training gathered representatives of the SELDI partners from nine countries, as well as local CSOs and the Skopje TACSO representative. The lecturers presented practical and methodological knowledge on corruption monitoring techniques. A particular focus of the training was CSD's *Corruption Monitoring System (CMS)* and the required steps for the successful implementation of nine corruption monitoring surveys, planned for the beginning of 2014. The participants also discussed the main topics to be covered



From left to right: Mr. Alexander Stoyanov, Director of Research; Ms. Maria Yordanova, PhD, Director, Law Program, Mr. Philip Gounev, Senior Analyst at the Security Program of CSD; Dr. Pentcho Houbtchev, Project Coordinator at Friedrich Ebert Foundation Bulgaria; Regine Schubert, Director of Friedrich Ebert Foundation Bulgaria

in the nine upcoming country-specific *Corruption Assessment Reports*, possible sources of information and policy recommendations.

On 29 November 2013, CSD and the Friedrich Ebert Foundation Bulgaria organised a public discussion “Corruption and Anti-corruption in Bulgaria (2012 – 2013)”, presenting the latest results from the *Corruption Monitoring System*, developed by CSD and Vitoshka Research. The country’s social environment remains conducive to corrupt practices and even though civil servants are exerting less corruption pressure, the number of people who would offer a bribe without being asked for it is increasing.



The policy brief *Corruption and Anti-Corruption in Bulgaria (2012 – 2013)* analysed the latest corruption trends indices. In 2013, the level of administrative corruption in Bulgaria remained the same. In the period 2012 – 2013, 14 % of the adult population has been involved

in corruption transactions at least once per year. The dynamics of corruption practices in the business sector was similar. The practical efficiency of corruption as a means to resolve problems and get access to services is still high, and in the business sector it has even been growing since 2008. Confidence in state institutions in general and in specialised anti-corruption bodies in particular remained very low. While expectations for relevant actions on the part of state anti-corruption bodies have been on the rise in 2013, both citizens and businesses believe corruption in the country is increasing.

CSD continued its annual monitoring and policy reporting on the dynamics of **the hidden economy** in Bulgaria.

CSD and the Friedrich Ebert Foundation presented on 20 November 2013 the report on the Hidden Economy Index for the period 2012 – 2013.


In 2013, Bulgaria’s main macroeconomic indicators showed slow economic growth, while competitiveness remained weak and the labour market conditions gloomy. These trends facilitated the development of hidden economic activities, which was reflected in the increase of both indices of the hidden economy in 2013 – of the population and of the business. The rate of employment under a contract with hidden clauses (envelope wages) was the highest on record – 13.8 % of the employed reported having received remuneration higher than the one stated in their contract. In view of the main findings of the report, some of the main measures to tackle hidden economic activities in Bulgaria should include increasing the level of electronic payments, wider e-government penetration, and improving legislation aimed at restricting market cartelisation. A key recommendation of the report is to introduce clearer accountability and per-



Participants in the public discussion “Hidden Economy in Bulgaria 2012 – 2013”

formance measurement regulations for the government control and compliance agencies.

In contrast with the 2011 – 2012 findings, according to CSD’s 2013 *Hidden Economy Index*, the share of the hidden economy in Bulgaria has increased in 2013 among both businesses and the population. Poverty, harsh labour market conditions, and bearish economic outlook all contributed to the development of hidden economic activities. These seem to have been exacerbated as a result of the shift in executive power, the related administrative reshuffling, and the overall political volatility in 2013. Tax evasion cases have increased, as have perceptions of the spread of the hidden economy in the country. The index results show increase in the incidence of hidden employment. According to conservative estimates based on the index results, a total of BGN 245.6 mln in social and health security payments are lost for



THE HIDDEN ECONOMY IN BULGARIA IN 2013
Policy Brief No. 42, November 2013

Introduction

Accurate understanding of the dynamics of the hidden economy is essential for improving public and private sector management. In the case of Bulgaria, the high level of hidden economic activities signals many deficiencies in the functioning of the public institutions and the rule of law, and undermines the economic development of the country. Limiting the grey economy ought to be an issue of eminent priority for policy makers. The recent unparalleled global growth of digitalization of economic activities provides ample opportunities to reduce hidden cash flows and directly contribute to positive economic development of the country. Comprehensive, sustained reforms focusing on improvements in market and administrative efficiency are needed to facilitate the process of economic convergence and limit the negative effects of the hidden economy in Bulgaria.

Macroeconomic Overview

In 2013, Bulgaria is one of the countries that have seen a decline in their competitiveness according to WCI’s World Competitiveness Yearbook (WCY). The country is ranked at 57th position – 3 places below the position achieved in 2012 – 54th. This is the lowest ranking of Bulgaria since its inclusion in the yearbook in 2006, and it is almost 20 places lower than its highest achievement in 2009 – 38th place. The country continues to have a fiscally stable, open and export-oriented economy. However, the Bulgarian economy lags seriously behind on all long-

KEY POINTS

- According to CSD’s 2013 *Hidden Economy Index*, the share of the hidden economy in Bulgaria has increased in 2013 among both businesses and the population. Poverty, harsh labour market conditions, and bearish economic outlook all contributed to the development of hidden economic activities. These seem to have been exacerbated as a result of the shift in executive power, the related administrative reshuffling, and the overall political volatility in 2013. Tax evasion cases have increased, as have perceptions of the spread of the hidden economy in the country. The index results show:
 - Increase in the incidence of hidden employment. According to CSD’s conservative estimates based on the index results, a total of BGN 245.6 mln in social and health security payments are lost for the treasury from underreporting and non-reporting of income for 2013 alone.
 - Increase in tax evasion and mild deterioration in terms of the government’s tax collection rates. Increase in public perceptions on tax evasion fraud is indicative of public sentiments about the opportunistic behavior of businesses on the back of political volatility in 2013. The very low inflation rate (actual deflation in certain months) in 2013 and a variety of other related economic conditions contribute to lower rates of tax revenue growth.
 - The 2013 Index results show that the focus on punitive measures observed in the 2009 – 2012 period led to somewhat higher tax collection rates but proved to be politically vulnerable and with a limited impact without the introduction of positive reforms. VAT changes, envisaged for 2014, continue steps in the right direction but they need to be made part of a wider comprehensive strategy for motivating participation in the official economy and for improving the overall economic environment in the country.

This study and publication are supported by the Friedrich Ebert Foundation, Office Bulgaria

FRIEDRICH EBERT STIFTUNG

the treasury from underreporting and non-reporting of income for 2013 alone.



International Seminar “EU Financial Interests under Threat: New Approaches in Assessing the Risks from Public Procurement and EU Funds Fraud”

CSD, with the support of the European Anti-Fraud Office (OLAF), organized an international seminar on “EU Financial Interests under Threat: New Approaches in Assessing the Risks from Public Procurement and EU Funds Fraud”.

The seminar, held on 30 October and 1 November, 2013, provided a comprehensive discussion platform for representatives of national anti-fraud and public procurement authorities, research institutions, international organizations and



Participants in the round table “Challenges to public policy for the development of civil society”

the private sector from Bulgaria, Greece, Italy, the Netherlands, Romania and the United Kingdom. Leading European researchers presented state of the art approaches for assessing corruption risks and impacts and the extent of fraud in vulnerable industries. Practitioners from public authorities were trained in applying methodologies for countering public procurement fraud.

III. Civil society

Many analysts see the year 2013 as the year of the Bulgarian civil society, as citizens have massively stepped out on the streets to defend their rights and demand accountability from politicians. CSD continued to serve as a knowledge centre and provide a discussion platform for Bulgarian civil society.

In May 2013, CSD hosted a round table on the "Challenges to Public Policy for

the Development of Civil Society". In her opening remarks, Dr. Maria Yordanova, Director of CSD Law Program, highlighted the **importance of the debate and the strategy for registry reform in Bulgaria**. She called for joint efforts within civil society, aimed at creating a national electronic register of non-profit legal entities, which would contribute to the fight against illegal practices and ensure more transparency within the sector. Mr. Ruslan Stefanov, Director of CSD Economic Program, presented examples of good practices from the Balkan region with regards to the interaction between civil society and national governments which could have a positive impact in Bulgaria as well.

Mr. Todor Yalamov, Senior Analyst at the Economic Program, reviewed the findings of the quantitative analysis of the Bulgarian non-profit sector for the period 2007 – 2012. The number of registered NGOs is growing stead-



Mr. Todor Yalamov, Senior Analyst at CSD Economic Program, at the round table "Challenges to public policy for the development of civil society"



Participants in the conference “Protests in Bulgaria and the Balkans in 2013: the State of Democratic Institutions”

ily. According to the National Statistics Institute, by 2013 there were around 41,000 organizations of which 40,000 were active (in comparison to 2001 when there were just 1000). Of these, only about 10,000 provide regular annual accounts of their activities. 2700 organizations reported that part of their income derives from commercial activities, which accounts for the majority of the incomes for 1,200 of these NGO's. Given the weak oversight and transparency of the sector, this trend poses a risk of abuse. The lowest level of transparency is observed in the management of large organizations with an annual turnover of more than 0.5 million leva, currently numbering about 180. Half of them are not registered for public benefit.

CSD and researchers from the University of Cambridge, in cooperation with the

Centre for East European Language Based Area Studies (CEELBAS), organized a seminar on “Protests in Bulgaria and the Balkans in 2013: the State of Democratic Institutions”. The discussion was held on 22 November 2013 and focused on the root causes, significance and meaning of the 2013 protests for the Bulgarian democracy, form the point of view of protesters, the media, non-governmental organizations and academic institutions. The aim of the event was to serve as a platform for a more in-depth analysis of civil society and democracy in Bulgaria. The discussion revolved around three main themes – similarities and differences between the protests in Bulgaria, Turkey and Greece; the main characteristics of the Bulgarian protests; and the role of the democratic institutions, incl. media and NGOs, in the future of the protests.

IV. Competitiveness and the knowledge economy

In 2013, CSD continued its work on the study of the competitiveness of the Bulgarian economy and on strengthening and encouraging the development of the potential of the Bulgarian national innovation system. CSD is an institutional member of the Consultative Council at the National Revenue Agency.



Experts from the Economic Program contributed actively in the development of the annual publication *Innovation BG*. Partial institutional reforms cannot improve the overall disappointing state of the Bulgarian national innovation system. *Innovation.bg's* recommendations for the national policy in the field of innovations can be summarized as follows:

- adoption of an integrated national strategy with a particular focus on “science-education-innovation” interaction and with a small number of priorities and concentrated funding;
- unification of the numerous scattered state units for implementation and funding of R&D and innovations;
- providing prioritized co-funding with national financial resources for the Bulgarian organizations which have succeeded to win approval and to attract funds for research and innovations from the European framework programmes;
- introduction of an at least three-year horizon for planning national funds for research and innovations;
- prioritization of measures for technological and innovation development in the traditional sectors such as tourism, textiles, construction and agriculture;
- special focus on measures for innovation advancement of low-tech micro- and small enterprises;
- promotion of measures in support of innovation culture.

In 2013 the Economic Program continued analysing the barriers to the Bulgarian business and provided recommendations for improvement of the overall competitiveness landscape. CSD is the official partner for Bulgaria of the World Competitiveness Center at IMD (International Institute for Management Development), Switzerland, which publishes the *World Competitiveness Yearbook*. The previous seven issues of the Yearbook had a direct impact on the Bulgarian competitiveness policy-making. International investors monitor very closely the IMD competitiveness ranking. The *IMD World Competitiveness Yearbook 2013* assessed Bulgaria’s competitiveness in comparison to 60 leading national and regional economies.

CSD presented the results of the *IMD World Competitiveness Yearbook 2013* during a press conference on 30 May 2013. In 2013, Bulgaria was one of the countries that saw a **decline** in their **competitiveness** according to the study. The country was ranked at 57th position – 3 places below the position held

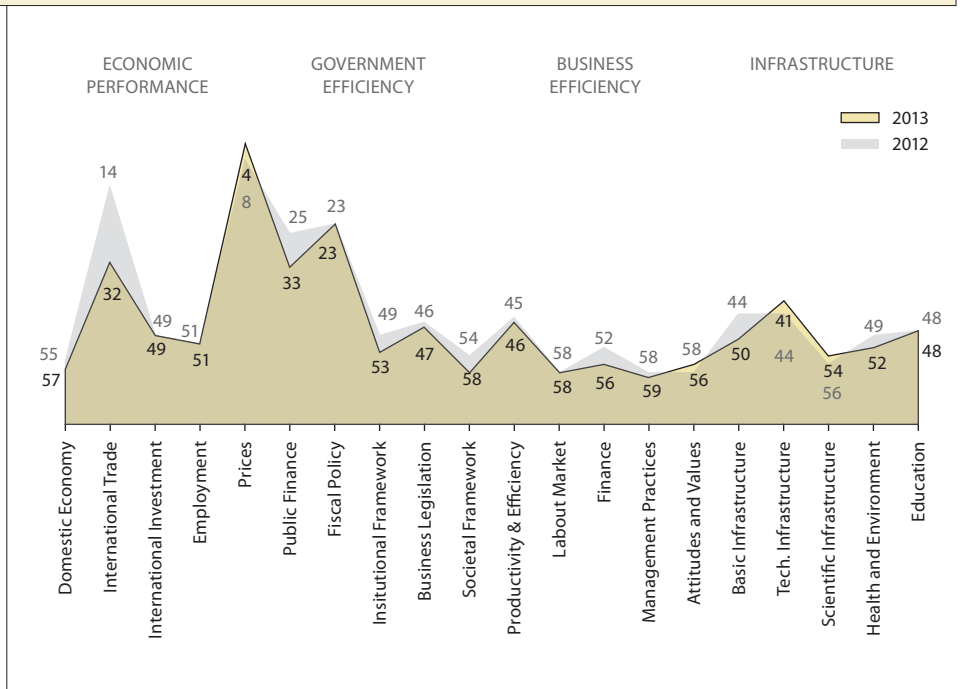


2012. This was the **lowest ranking** of Bulgaria since its inclusion in the yearbook in 2006 and it is almost 20 places lower than its highest achievement in 2009 – 38th place. The main challenges hindering economic growth have been identified as: inefficient public administration, widespread corruption and a growing income gap.

In a policy brief presenting the conclusions of the 2013 *IMD World Competitiveness Yearbook* the **top 5 challenges** which Bulgaria faces in improving its competitiveness were identified as:

- Modernise public administration to increase evidence-based efficiency and regulatory quality;

Figure 2. Profile of the Competitiveness of the Bulgarian Economy 2012/2013, 2013 IMD World Competitiveness Yearbook



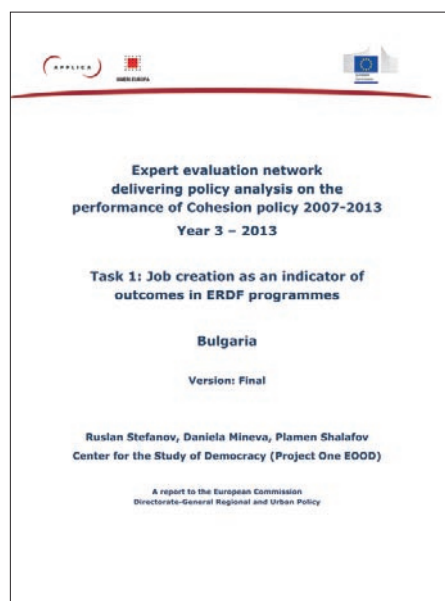
- Reduce administrative costs and provide EU funded incentives for innovation and entrepreneurship;
- Strengthen the judiciary to tackle corruption and reduce business uncertainty;
- Reform the governance of the energy sector to preserve cost competitiveness, diversify gas supply, and improve energy efficiency;
- Tackle hidden economy and related labour market inefficiencies.



V. Evaluation 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 analyse the **impact and the absorption effectiveness of the EU Funds**

in Bulgaria. CSD's work within the network included the preparation of a thematic report on *Job Creation as an Indicator of Outcomes in ERDF Programmes* and the annual *Country Report on Achievements of Cohesion Policy*.



In 2013, the thematic report focused on **job creation as an indicator of outcomes in ERDF programmes**. Two Operational Programmes (OPs) in Bulgaria, Competitiveness and Regional Development, use jobs created as an indicator of ERDF outcomes. The Managing Authority (MA) for the Competitiveness OP compiles information on jobs created in a relatively systematic way, though only at overall program level. Yet, the system employed by the Competitiveness OP can be used as an example of good practice for the other OPs in this respect. Overall, the highly unfavourable economic conditions mean that the targets set for job creation at the onset of the programming period have not been achieved so far. This has demonstrated one of the limitations of the use of the indicator, namely that it

is very difficult to disentangle the direct effects of the measures implemented from external factors and changes in the economic environment.

The *Country Report on Achievements of the Cohesion Policy* highlighted the fact that EU Funds have continued to be one of the main sources of investment in the Bulgarian public and private sectors in 2012 – 2013. They have also been a counter-cyclical factor during the on-going

economic downturn. Increasing disparities between best performing and lagging regions and rising unemployment rates, however, suggest that the provided support has not been able to fully offset the effects of the recession. Since the 2012 *Country Report*, all five ERDF-financed OPs have experienced growth in terms of both contracted and paid-out funds. Three of them have contracted almost their entire budgets by August 2013.