

# Tackling the Sources of Corruption and State Capture: **Illicit Financial Flows**

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12 October 2022, Brussels



Co-funded by  
the European Union



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BULGARIA



# Outline



- What is Illicit Financial Flows (IFFs)?
- Why is this a crucial topic?
- What are the main components, channels, and drivers of IFFs?
- Contextualizing IFFs in Southeast Europe!

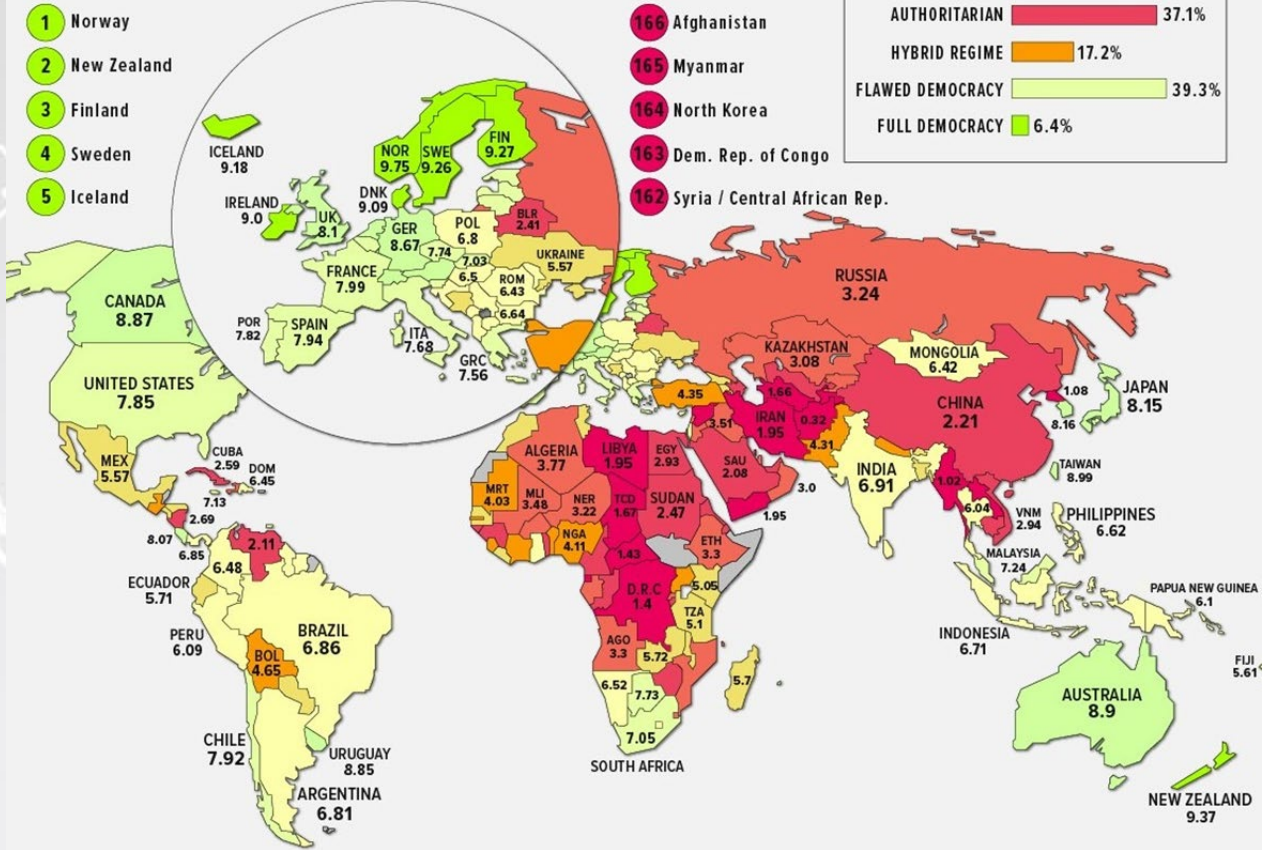


In 2020, 49.4% of the world population lived in some sort of democracy. This has dropped substantially to 45.7% in 2021 and 37.1% of the world population live in "authoritarian regimes".

AUTHORITARIAN 37.1%  
 HYBRID REGIME 17.2%  
 FLAWED DEMOCRACY 39.3%  
 FULL DEMOCRACY 6.4%

- Top 5 Ranked Countries**
- Norway
  - New Zealand
  - Finland
  - Sweden
  - Iceland

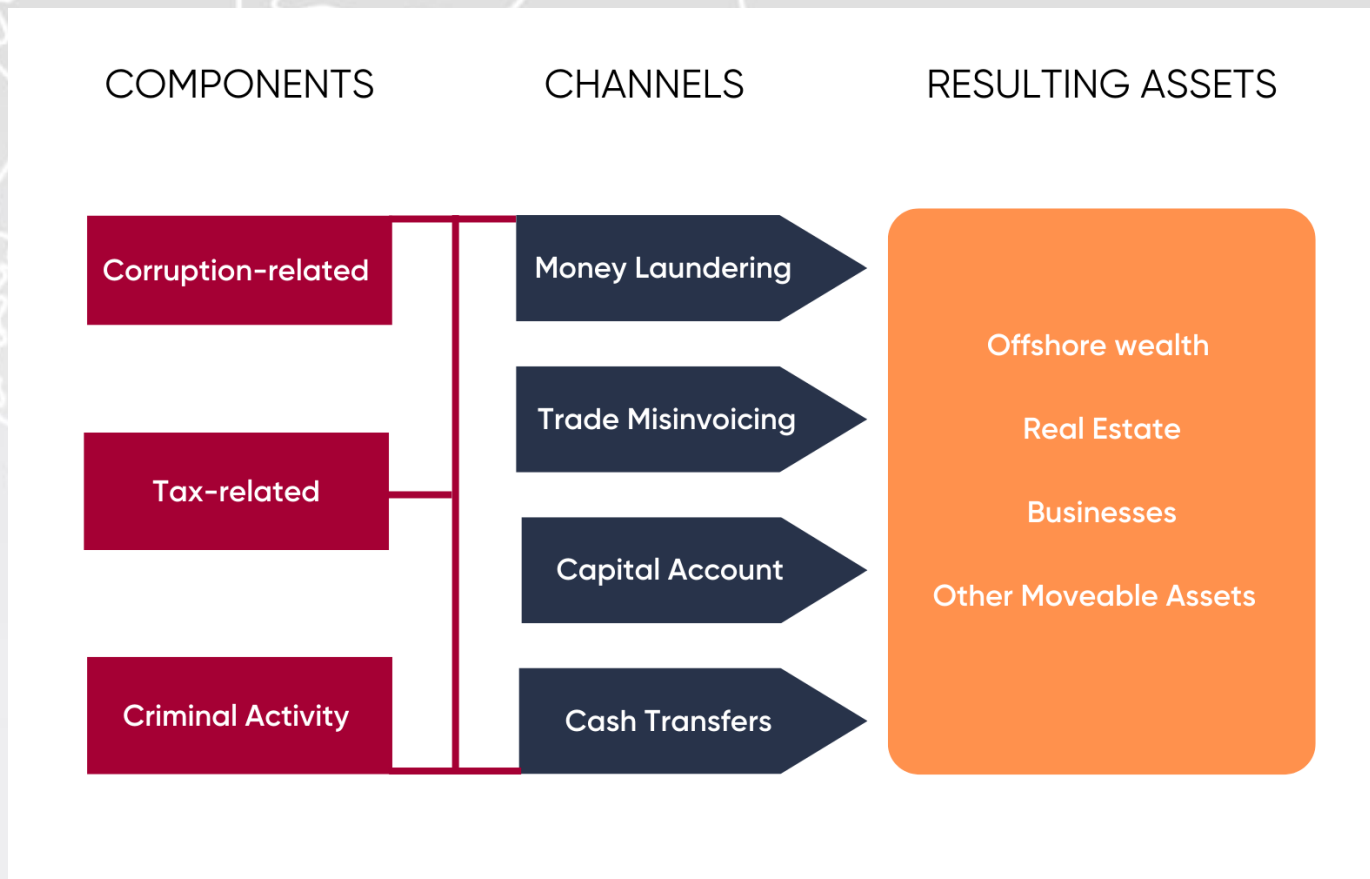
- Bottom 5 Ranked Countries**
- Afghanistan
  - Myanmar
  - North Korea
  - Dem. Rep. of Congo
  - Syria / Central African Rep.



THE DEMOCRACY INDEX IS BASED ON FIVE CATEGORIES:

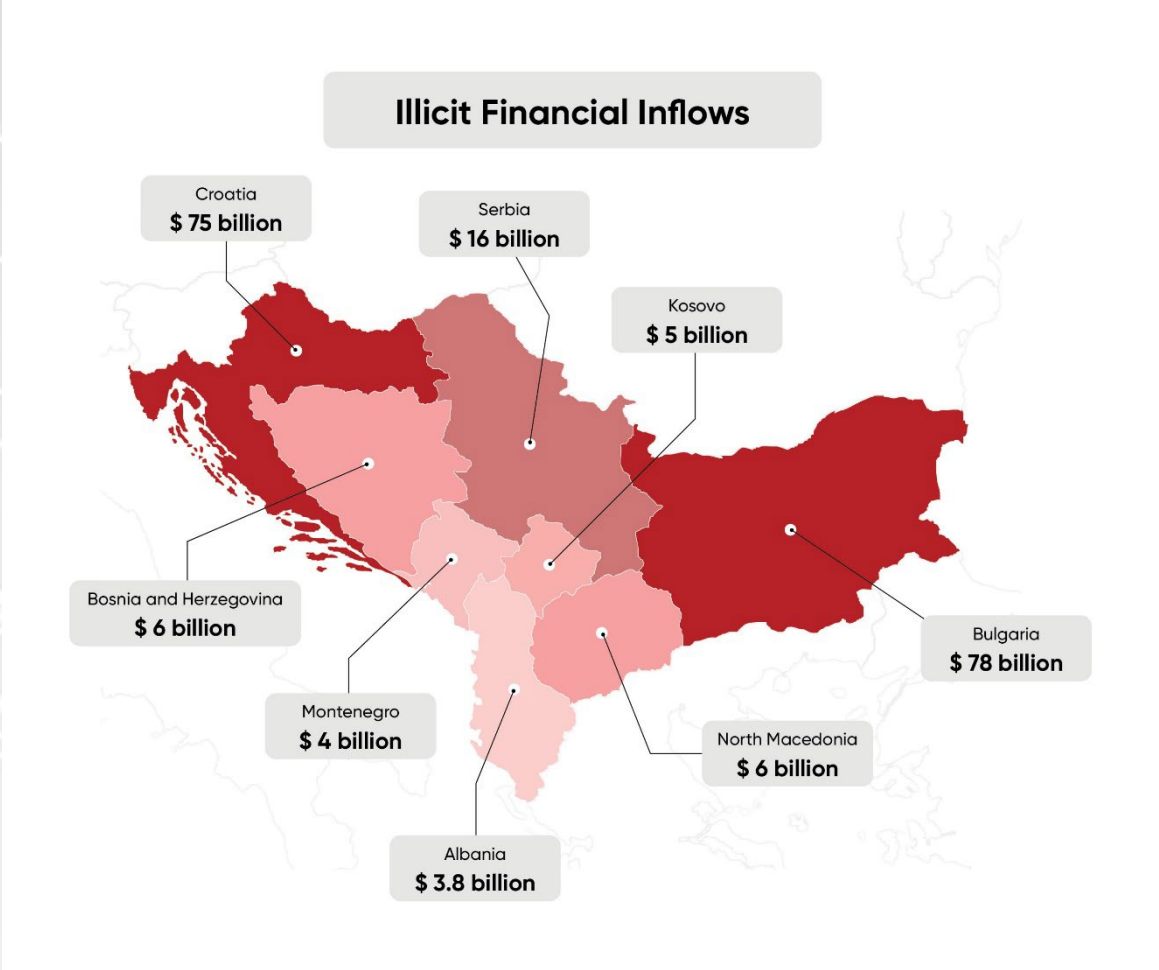


# IFFs Sources and Channels

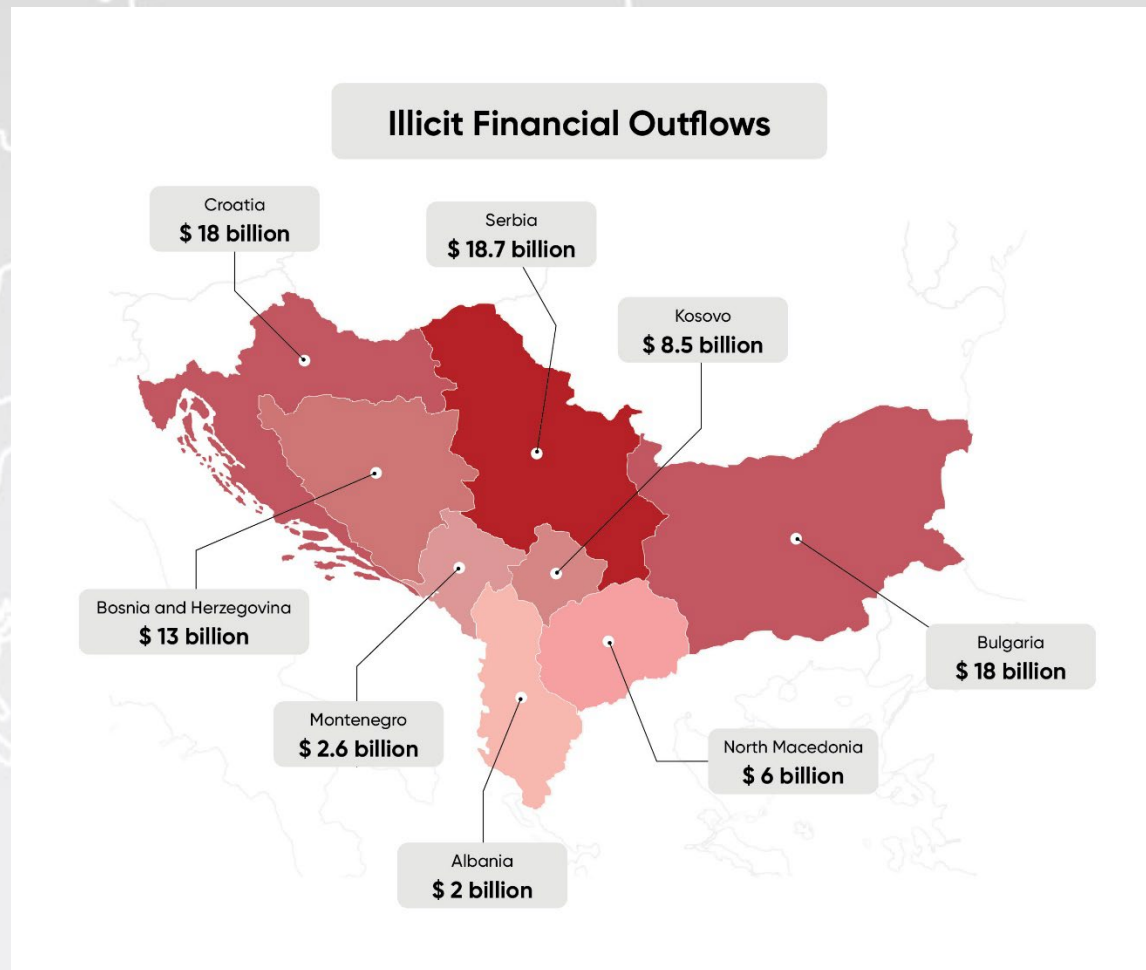


**Source:** *Financing for Development: Progress and Prospects, 2017*

# IFFs in Southeastern Europe, 2000-2020: **Inflows**



# IFFs in Southeastern Europe, 2000-2020: Outflows

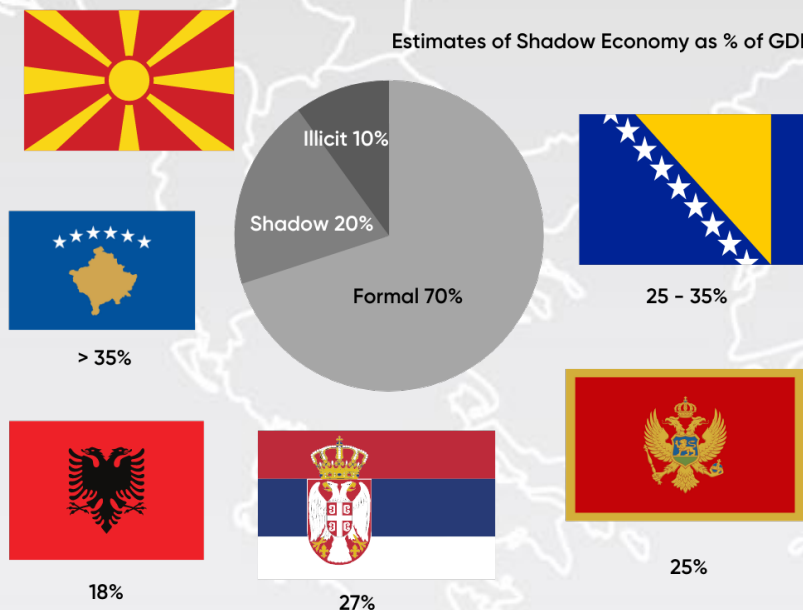


# IFFs in Southeastern Europe: Enablers

**Socio-economic and governance factors increasing IFF vulnerabilities in the region:**

- Strategic geographic location;
- Large shadow economies;
- Governance weaknesses (e.g., corruption; rule of law; lack of transparency in political financing; captured media);
- High unemployment and low average wage rates;
- Interdependent economies; Remittances, etc.

Estimates of Shadow Economy as % of GDP



**Source:** World bank open data, 2020

# IFFs in Southeastern Europe: Components

## 1. Corruption-related Crime

- Public procurement, graft, bribery, political-party financing, fraud

*Albania: EUR 300 M lost annually to abuses in public procurement (GI-TOC, 2020)*

## 2. Organized Crime

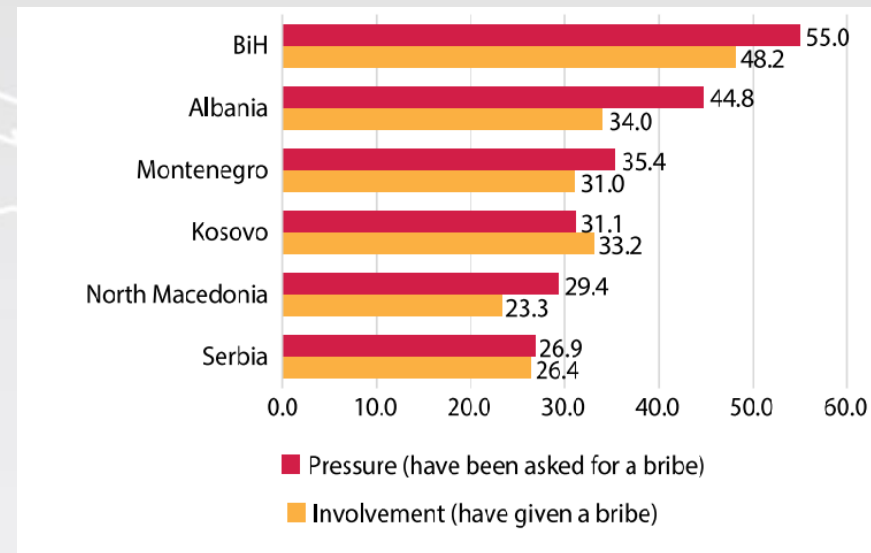
- Drug trafficking, illicit trade, smuggling of migrants, arms smuggling

*Western Balkans: EUR 200 M lost annually from the illicit tobacco trade (GI-TOC, 2022)*

## 3. Tax-related Crime

- Tax Evasion

*Serbia: ≈ EUR 240 M lost in tax every year (Tax Justice Network, 2021)*





# IFFs in Southeastern Europe: Channels

## 1. Money Laundering

- Real estate and construction, tourism, gambling, cryptocurrency

*Bosnia and Herzegovina: Money laundering is worth EUR 500 M – 1 B (GI-TOC, 2022)*

- Cash smuggling, currency exchange, credit card fraud

## 3. Capital Account

- Offshore accounts

## 2. Trade Misinvoicing

- GFI Estimate: 80% of IFFs are moved through trade misinvoicing

*North Macedonia: > EUR 600 M IFFs annually (CSD)*



*Albania: EUR 3.4 seized*

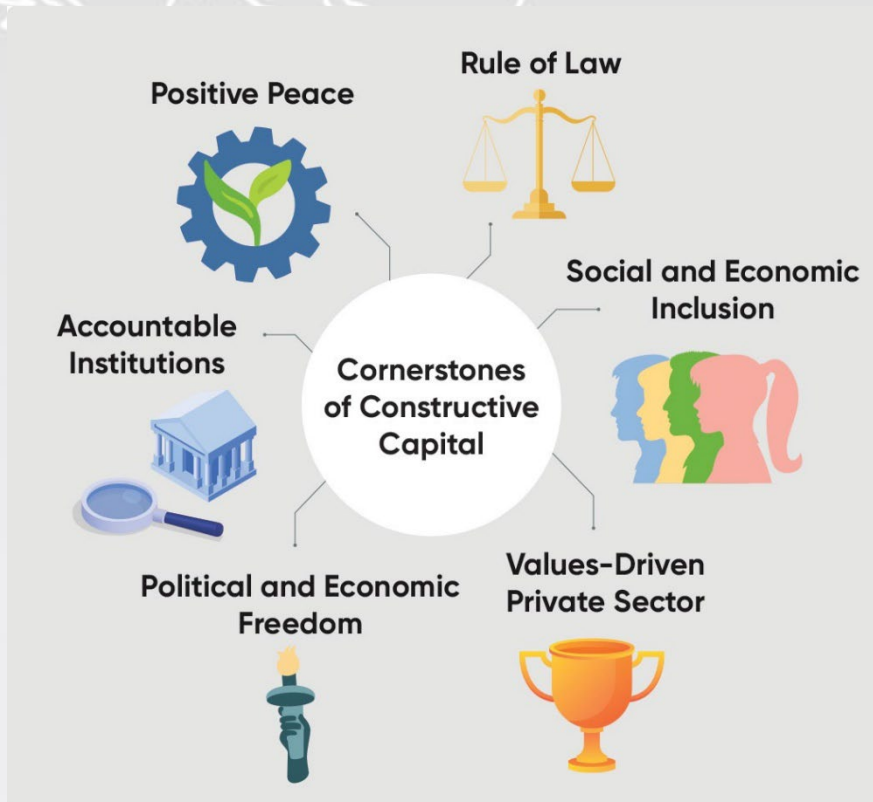


# Thank you!

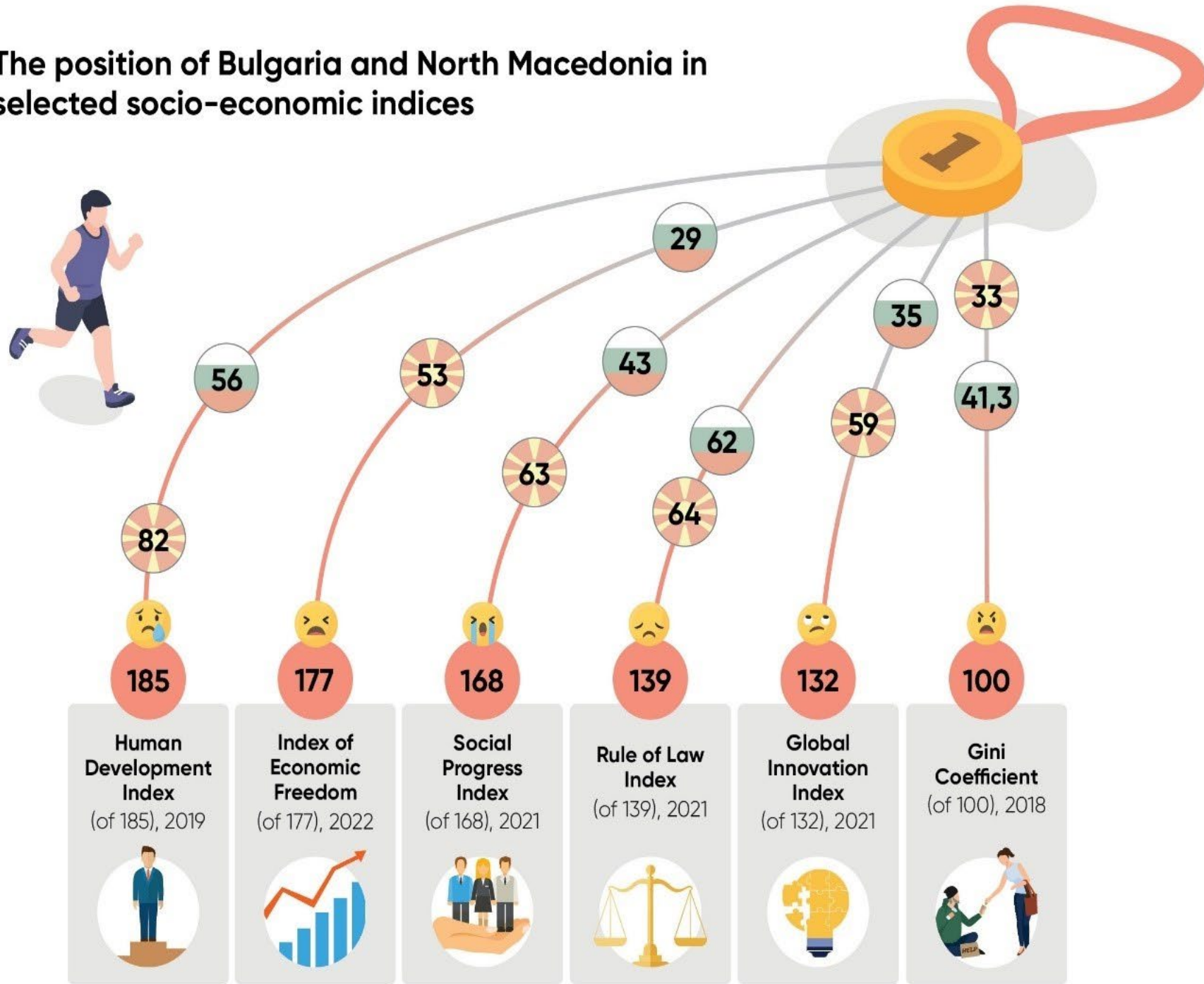
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# Promoting Constructive Capital: Bulgaria and North Macedonia

- In the past two decades, both countries have undergone considerable political, social, and economic changes.
- Yet, incomplete reform agenda and protracted socio-economic hurdles.
- **High hopes lie ahead:**
  - **BG:** the largest national public funding (Recovery and Resilience Facility);
  - **NMK:** green light to EU accession negotiations



# The position of Bulgaria and North Macedonia in selected socio-economic indices



# North Macedonia



**Area** (sq. km, thousands)  
**25,713** Land area  
**280** Water area

**Form of government**  
**Parliamentary Republic**

**Time Zone**  
Central European Time (UTC+1)

**Population, total** (millions)  
**2,130,936** (2022)

**National holiday**  
**8 September**

**VAT**  
General tax rate of **18%**  
Preferential tax rate of **5%**

**Dual citizenship**



**Birth rate**  
births/1,000 population (2022)  
**10.45**

**Population growth**  
(annual %)  
**0.12%** (2022)

**Currency**  
**Macedonian denar (MKD)**  
pegged to EUR at 61.3644



**Capital**  
(population, 2022)  
**Skopje** (606,000)

**Urban population**  
(% of total population, 2022)  
**59.1%**

**Natural resources**

low-grade iron ore, copper, lead, zinc, chromite, manganese, nickel, tungsten, gold, silver, asbestos, gypsum, timber, arable land

**Literacy**  
(age ≥ 15 can read and write)  
**98.4%**

**Agricultural land** (2018)  
**44.3%**

**Workforce**  
**793,000** million (2020)



# Bulgaria



**Area** (sq. km, thousands)  
**108,489** Land area  
**2,390** Water area

**Form of government**  
**Parliamentary Republic**

**Time Zone**  
Central European Time (UTC+2)

**Population, total** (millions)  
**6,873,253** (2022)

**National holiday**  
**3 March**

**VAT**  
**20%**

**Dual citizenship**



**Birth rate**  
births/1,000 population (2022)  
**8.05**

**Population growth**  
(annual %)  
**-0.67%** (2022)



**Capital**  
(population, 2022)  
**Sofia** (1.287 million)

**Urban population**  
(% of total population, 2022)  
**76.4%**

**Literacy**  
(age ≥ 15 can read and write)  
**98.4%**

**Agricultural land**  
(2018)  
**46.9%**

**Workforce**  
**3.113** million (2020)



**Natural resources**  
bauxite, copper, lead, zinc, coal, timber, arable land



**Coastline** (km)  
**354**

**Currency**  
**Bulgarian lev (BGN)**,  
pegged to EUR at 1.9558



# Becoming Constructive Capital Destinations

**Bulgaria and North Macedonia should explore the economic potential within the framework of bilateral cooperation, improve the business environment, and promote shared prosperity!**

- **How?** Urgent call for a paradigm shift!

## **Policy Recommendations:**

- Continue the sectoral dialogue and develop a concrete action plan with **specific, realistic, quantifiable, and time-bound measures** to be regularly assessed within the TF;
- Bulgaria to share its experience in the implementation of IPA: technical assistance and exchange of good practices;

- The current turbulent times call for further strengthening of **defence cooperation**.
- **Integrated border management**: create a joint working group for combating cross-border fraud.
- **Improve connectivity**: the new strategic Klepalo border checkpoint; Corridor VIII; inclusion of the connection Sofia-Skopje-Tirana-Durres in the new Western Balkans Corridor.



- Promote cooperation between **chambers and businesses** for joint application under EU programmes and funds
- Foster exchange of experience and technical assistance (TAIEX) for the development of **entrepreneurship and the competitiveness of SMEs**
- **Modernize and synchronize business and labor legislation** (e.g., crowdfunding; easing work visas); Create a joint fund for start-ups
- Investment screening mechanism