

Economic Program

In 2017, the Economic Program focused its work on the following areas:

- **Energy governance and energy security.** CSD was involved in the development of a Long-Term Electricity Roadmap for the SEE, outlining the three main European Energy Union mandated scenarios for the evolution of the Bulgarian electricity sector until 2050. Regardless of whether or not Bulgaria pursues an active policy to decarbonise its electricity sector, a significant shift away from fossil fuels to renewables will take place. Due to aging power plants, Bulgaria will need to replace approximately 97 % of its existing conventional generation fleet by 2050. New nuclear capacity will neither be needed, nor feasible before the need for replacement of existing reactors arises in the late 2040s. The country needs to focus on tackling long-term energy risk factors, the top four of which remain energy poverty, energy intensity, diversification and bad governance.
- **Tackling corruption and state capture risks.** CSD has embarked on a challenging mission to develop an innovative *State Capture Index (SCI)* based on big data analysis of market concentration as a product of regulatory, tax and judicial manipulation, and expert surveys with representatives from the academic, CSO and business sectors. CSD updated its Money Laundering Investigation Manual and held an innovative training week on countering and investigating money laundering for representatives of all relevant public authorities. The Southeast Europe Leadership for Development and Integrity (SELDI) initiative, coordinated by CSD, was able to further its impact in the SEE region, deepening its efforts for improved regional and European cooperation in good governance and anti-corruption.
- **Defining and analyzing foreign economic influence.** In 2017, CSD continued its pioneering work on defining the risks of adverse foreign economic presence when it combines political goals and autocratic capital. CSD has gathered international task forces to study the adverse Russian presence in the Western Balkans and in the Eastern Neighborhood, in particular as it relates to Euro-Atlantic aspirations and media freedom.
- **Hidden economy.** CSD and Vitosha Research continued their good cooperation with the University of Sheffield Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe. In 2017, under CSD leadership they published a series of policy briefs on the key takeaways for policy makers in Southeast Europe, Bulgaria, Croatia, and Macedonia.
- **Competitiveness and knowledge economy.** CSD continued analyzing the barriers to the Bulgarian business, provided recommendations for improve-

ment of the overall economic competitiveness and contributed to the development of the 2017 IMD World Competitiveness Yearbook. CSD experts participated in the development of the annual *Innovation.bg* report, drawing key recommendations for improving the national innovation policy in Bulgaria.

I. Energy governance and energy security

Bulgaria's Energy Security Risk Index declined further in the past two years, placing it at 58th position among the 75 largest energy consumers in the world. According to CSD's Policy Brief *A Roadmap for the Development of the Bulgarian Electricity Sector within the EU Until 2050: Focus on Fundamentals*, the key contributing factors have been the steady reduction of energy intensity and the greening of Bulgaria's energy and economy. The Bulgarian government needs to build carefully on this progress focusing on its EU-related

priorities and heeding the country's long-term energy risk factors, the top four of which remain energy poverty, energy intensity, diversification and bad governance.

The critical debate on the Bulgarian energy governance was further substantiated during a high-level policy round table *Priorities for the Bulgarian Energy Sector until 2050: European Perspectives and Strategic Vulnerabilities*. At the event, CSD presented the main findings and policy recommendations from electricity roadmap scenarios for Bulgaria up to 2050 developed as part of the regional South East Electricity Roadmap.



Priorities for the Bulgarian Energy Sector until 2050: European Perspectives and Strategic Vulnerabilities Policy Round Table, Sofia, October 2017

Development of a long-term Electricity Roadmap for the SEE region

The region of Southeast Europe will need to replace more than 30 % of its current fossil fuel generation capacity by the end of 2030, and more than 95 % of it by 2050, according to the long-term energy policy of the European Union. How to obtain these objectives is a policy challenge that requires consistent implementation of a renewable energy policy that provides incentives for new investment. Through five modelling exercises incorporating the gas and power markets, the transmission network and the macroeconomic system, *The South East Electricity Roadmap (SEERMAP) Report* elaborates comprehensive scenarios for the transformation of the electricity sector towards a full decarbonisation of electricity generation and a reduction of emissions by 91 % in 2050 compared to 1990. CSD has been the local partner who was re-



sponsible for the Bulgarian energy data verification, the analysis of the country's renewable energy policy and the development of country-relevant policy recommendations, incorporated in the *SEERMAP Bulgaria Country Report*. The study summarises the main findings for the development of the electricity sector in the country until 2050. Regardless of whether or not Bulgaria pursues an active policy to decarbonise its electricity sector, a significant shift away from fossil fuels to renewables will take place.



In addition, CSD continued to actively address important trends and dynamics, driven by the key powers on Eastern European energy and geopolitical map – Russia and Turkey. The report *Turkey in The Framework of the EU Energy Union: Energy Security and Governance Risks* discusses the strategic importance of the country both for SEE region and Europe. As a strategic bridge for new energy sources, Turkey will play an increasingly critical role in helping the EU in completing the ener-



*The EU Energy Union and the Russian Gas Projects:
Energy Choices and Energy Security in Europe Round Table, Sofia, June 2017*

gy security pillar in the Energy Union initiative. The country is going to play a vital role as the major transit country of future alternative natural gas supply from the Caspian region and the Middle East. Russia, on the other hand, has been a critical but controversial energy supplier for Europe for centuries, and the way EU and Russian energy strategies develop and interact in the decades to come is going to be important for the energy choices of European households. Gas has been a case in point in this regard. Governance deficits in many of the CEE countries have contributed to a lack of policy consistency on the main energy security priorities of the region including diversification of gas routes, liberalisation and integration of markets. These were some of the main conclusions of a round table discussion on the *EU Energy Union and the Russian Gas Projects: Energy Choices and Energy Security in Europe*.

Understanding individual and collective choices towards low-carbon energy transition

The EU and national policies for transition to low-carbon economy and society have been in the focus of CSD research activities during the whole of 2017 as part of an international team of scholars studying individual and collective energy choices in eleven European countries under the EU Horizon2020 Framework Programme for Research and Innovation. CSD has coordinated the development and application of research methodologies for studying key factors of households' and business enterprises' energy choices in the areas of transport, heating and cooling, and electricity, and for studying governance and social mobilisation practices that encourage collective energy choices in line with the Energy Union. The major aims of the research agenda are to better understand the interactions between individual and collective energy choices and the regulatory, technological and

investment prerequisites of the Energy Union transition pillar, and to provide strategic policy recommendations on how to increase the social acceptability of energy transitions in Europe.

Understanding Russian influence in Central and Eastern Europe

Ten bipartisan US Senators tabled comprehensive Russia sanctions legislation, the *Countering Russian Hostilities Act of 2017* which aims to introduce comprehensive sanctions on Russia for their cyber intrusions, aggression and destabilizing activities in the US and in Europe. The proposed legislation has recognised some of the key findings and policy recommendations from the recent report by CSD and CSIS *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, including that Russia had tried to exert influence in Europe by sowing “distrust in democratic institutions” and “engaging in well-documented corruption practices” to increase Russian influence in European countries.

The proposed bill mandates the creation of a special “high level task force” within the Treasury Department’s Financial Crimes and Enforcement Network that would not only trace and prosecute illicit financial flows linked to the Russian Federation if such flows interact with the United States financial system, but would also work with European governments via the US diplomatic missions to investigate illicit Russian financial flows. Consistent with the *The Kremlin Playbook’s* recommendations, the legislation also mandates support for programs aiming to combat corruption, including by strengthening civil society and national anti-corruption and regulatory bodies, and by improving the democratic governance, transparency, accountability and media freedom.

In late 2016, the Center for the Study of Democracy, in partnership with the Washington-based Center for Strategic and International Studies (CSIS), concluded a 16-month study to understand the nature of Russian influence in five case countries: Hungary, Slovakia, Bulgaria, Latvia, and Serbia. This research determined the extent of the Russian economic footprint in the domestic economy, which has ranged between 11 % and 22 % on average from 2004 to 2014. The report also presented evidence of how Russia has leveraged its economic presence to cultivate an opaque web of economic and political patronage across the region that the Kremlin uses to influence and direct decision making. In 2017, CSD has focused on extending the scope of its study, both deepening the understanding of the complex relations between foreign economic and political influence, including in new areas such as media capture, and enlarging the geographical coverage by incorporating new countries. CSD will continue its pioneering effort in quantifying Russian economic influence in Europe, including the Western Balkans – Macedonia, Montenegro and Bosnia & Herzegovina, emphasizing simultaneously its correlation with worsening governance across the region and the rise of the kleptocratic state. The Russian influence is assessed in a comparative perspective especially in the energy and financial sector where other regional powers such as Turkey have also vied to strengthen their clout. On the other hand, in the area of media capture, CSD aims at quantifying Russian corporate involvement in the media sectors of Bulgaria, Georgia, Moldova, Armenia and Ukraine and tracing its correlation with increasingly anti-Western propaganda and fake news content. Working with local partners in these countries, CSD also empowers local media, civil society and policy makers to identify state capture practices and attempts of

foreign states to infiltrate domestic institutions through local oligarchic networks.

II. Regional and European cooperation in good governance and anti-corruption

The President of the European Commission has announced 2025 as the target year for the next EU Enlargement in the Western Balkans, with the most likely candidates Montenegro and Serbia. EU Member States, though, are far from united behind him. They have provided backing for the European future of the region and have stepped up their pledge for support for the region with a focus on infrastructure and economic development, but most of the leading EU Member States remain reserved to putting a specific date for WB enlargement, in particular as regards rule of law concerns.

For the new strategy to work out and for EU – Western Balkans differences to be overcome, there is a need for much deeper and wider regional cooperation as well as engagement of the civil society actors from the region. This can only be achieved by decisive action channeled through comprehensive cooperation platforms gathering national governments, regional initiatives, European and CSO actors.

As economic development becomes central to ensuring further EU integration in the Western Balkans, notably through the Berlin Process initiative, good governance and anti-corruption should be considered as horizontal priorities across all fields of reform. It is with the prospects of 2018, when Bulgaria, for the first time in its history, will hold the EU Council presidency, that CSD and the [Southeast Europe Leadership for Development and Integrity \(SELDI\)](#)



Effective Prevention of Corruption through Risk Assessment Regional Forum, Ljubljana, October 2017

coalition continued their advocacy in the SEE region.

SELDI organised multiple networking and advocacy events throughout the year, held in Belgrade, Ljubljana and Podgorica. The forums, organised with the support of the Regional Cooperation Council, provided discussion platform for strategic dialogue between civil society and the public sector on the regional dynamics and the role of good governance for unlocking economic growth in the context of both current and future socio-economic developments.



On the other hand, significant attention was attributed to the application of technical instruments in pursuit of effective prevention of corruption. To further raise awareness and substantiate this debate CSD published *Sustainable Policy Impact through State-of-the-Art Research and Advocacy*, a review of the architecture and key results from the main methodological instruments applied

by SELDI in Southeast Europe. SELDI's advocacy impact, channeled through local ownership and a strong public-private partnership foundation, is built upon state-of-the-art corruption and hidden economy monitoring tools. The network's constant drive for social innovation has pushed its members to also devise new instruments, particularly in response to recently emerged, complex and systemic corruption practices in the region, most notably state capture.

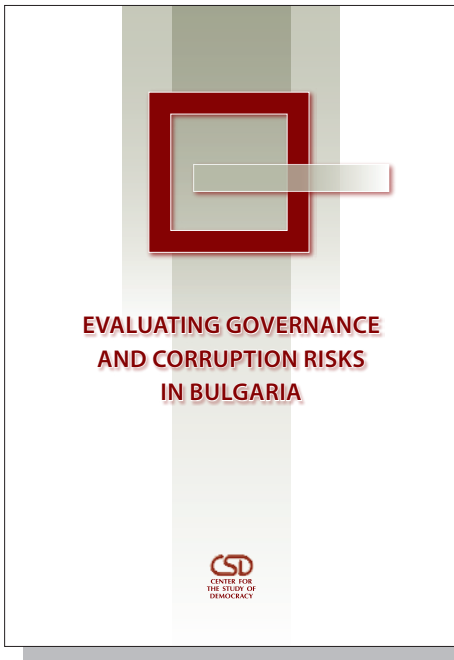
Evaluating governance and corruption risks

Ten years after accession to the EU, the challenge of corruption continues to define both Bulgaria's and Romania's status within the Union. The systematic effects of corruption remain the number one problem in both countries. The EU has imposed a series of conditions on the two countries in the area of anti-corruption, while allocating considerable financial support for modernisation for nearly two decades. The question remains to what degree have EU funds specifically targeted greater anti-corruption progress and what has been their tangible impact. This was among the core questions discussed during the round table *EU Funds and the Path to Good Governance in Bulgaria and Romania: Lessons Learnt*.

The round table was part of CSD's continuing efforts in 2017 to address critical governance and corruption challenges in Bulgaria. The publication *Evaluating Governance and Corruption Risk in Bulgaria* is an important contribution in this regard, providing insight into key risks of corruption in the public procurement market in construction and the way the EU has impacted Bulgarian progress on anti-corruption. An overview of the EU financial support for anti-corruption-related actions since 1998 reveals that, irrespective of the actual amount of the



*EU Funds and the Path to Good Governance in Bulgaria and Romania:
Lessons Learnt Round Table, Sofia, February 2017*



overall EU financial support throughout the years, Bulgaria has devoted attention and resources to anti-corruption commitments only when approaching a

major EU conditionality milestone. Bulgaria seems to have allocated very limited resources for anti-corruption overall in contrast to allegedly high significance of the issue in the country's accession and membership efforts.

Anti-corruption and state capture

With the purpose of narrowing the knowledge gap in state capture in the EU through diagnosing the mechanisms and means of state capture in critical economic sectors, CSD embarked on designing and implementing an innovative set of instruments for quantifying state capture risks, allowing for cross-sector and cross-country comparisons. Following a series of methodological discussions and practical workshops throughout 2017, CSD developed an innovative *State Capture Index (SCI)*, based on big data analysis of market concentration (both in the private and public sector) as a product of regulatory, tax and judicial manipulation, and expert surveys with repre-

sentatives from the academic, CSO and business sectors, which is currently being piloted in Bulgaria, Romania, Italy, the Czech Republic and Spain.

Fight against money laundering

In 2017, CSD continued its partnership with the Basel Institute of Governance in an attempt to analyse the current trends and institutional dynamics, and contribute to fight against money laundering. Bulgaria remains a high-risk country for the initiation of money laundering schemes. The high share of informality in its economy coupled with the low level of enforcement against corruption and organised crimes renders the country's financial system highly susceptible to money laundering. These and other important trends of the Bulgarian anti-money laundering framework and institutional effectiveness were discussed in the Policy Brief *Money Laundering in Bulgaria: State of Affairs and Policy Implications*. Money laun-

dering and other financial crimes are generally linked to different predicate offences by organised crime groups (most often with regards to trafficking in narcotics and human beings, prostitution, weapons, computer crimes, etc.). Tackling such a complex network of criminal activity requires substantial capacity on the part of law enforcement and the judicial system. With the aim of enhancing their practical capacities, CSD, in cooperation with the Basel Institute on Governance, organised a specialised training on the financial investigation of money laundering. In the course of five days, 32 representatives of Bulgaria's main institutions tasked with investigating money laundering and assets forfeiture underwent intensive training under a format developed by the Basel Institute on Governance. The training gathered participants from the State Agency for National Security; the General Prosecutor's Office; the Combating Organised Crime General Directorate; the National Police; the Specialised Criminal Court; the Sofia Court of Appeal; the National Revenue Agency; and the Commission for Illegal Assets Forfeiture Acquired.

In parallel, CSD is preparing a specialised *Money Laundering Investigation Manual*. The comprehensive document, being developed in cooperation with key stakeholders from law enforcement and the judiciary, will serve as a practical guide for practitioners in Bulgaria.

III. Tackling the hidden economy in Bulgaria and in Southeast Europe

CSD and Vitosha Research continued their good cooperation with the Sheffield University Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe.



CSD
CENTER FOR
THE STUDY OF
DEMOCRACY

**MONEY LAUNDERING IN BULGARIA:
STATE OF AFFAIRS AND POLICY IMPLICATIONS**

Policy Brief No. 69, May 2017

1. Background


Bulgaria is still in the process of performing a comprehensive National Risk Assessment, as required by the Fourth EU Directive on prevention of the use of the financial system for the purpose of money laundering (ML) from 2015, which would potentially put the country in a better position to identify and address the existing risks. According to the Fourth Mutual Evaluation report for Bulgaria, published by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the country's financial system is misused mostly for placement and layering of criminal assets acquired abroad. At later stages, the integration of the criminal money back into the regulated financial and non-financial system often occurs abroad. The most significant part of the money passes through the Bulgarian financial system for a very short period of time in order to leave only a minor trace in the system and to keep the risk for money launderers to get detected as low as possible.¹ In principle, given Bulgaria's small economy, large volume transactions made in the placement phase should be more easily red flagged. To date this has proven to be difficult to ascertain, especially since organized criminal groups

KEY POINTS

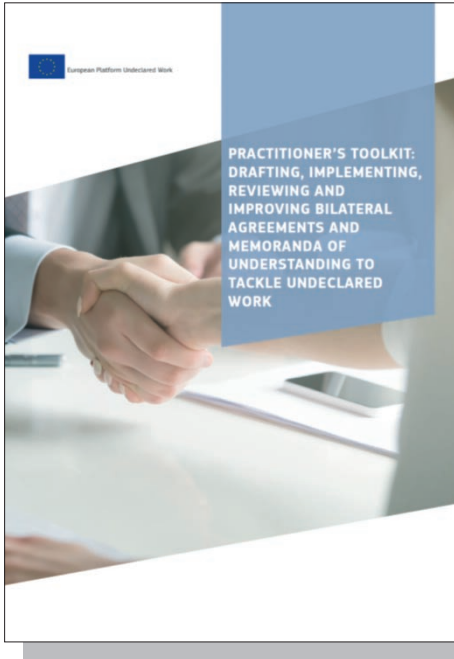
- Bulgaria remains high risk country for the initiation of money laundering schemes. The high share of informality in its economy, coupled with the low level of enforcement against corruption and organised crimes, renders the country's financial system highly susceptible to money laundering.
- Additional risk factors are the country's proximity and attractiveness to investors in real estate from non-EU countries, which might attempt to move assets through Bulgaria on the way to laundering them in the EU.
- Bulgaria has established a stable and high standard legal system for countering money laundering. But its institutional set up remains fragmented and without a central coordinating body, which further weakens the already stretched human resources.
- Bulgaria needs to urgently implement the most recent anti-money laundering rules on establishing final beneficial ownership. Bulgarian law enforcement should work towards establishing a money laundering risk assessment based on information of multiple registries and public databases.
- For Bulgaria to progress in countering money laundering it would need to advance on tackling legal asset corruption. Currently the system seems to self-sanor itself when it comes to investigations affecting politically exposed persons.

operating in Bulgaria are of a multinational character. Therefore, they may use fragmented and relatively small transactions, which make the discovery of the illegal nature of these transactions at the initial stage.

¹ Cf. 2015, Fourth MONEYVAL evaluation round: Bulgaria, http://www.coe.int/T/EU/monitoring/moneyval/EvaluationRound/Fourth-MONEYVAL2015111_ENG.pdf

 BULGARIAN-SWISS COOPERATION PROGRAMME
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CSD became part of the support team of the [European Platform Tackling Undeclared Work](#). The Platform aims to aid Member States deal with undeclared work more effectively and learn from each other's experiences. CSD took part in a series of thematic workshops, dedicated to: the use of national and bilateral agreements to tackle undeclared work; administrative cooperation through the use of the Internal Market Information system (IMI); and sharing success stories on measures, instruments and tools that could be transferred to other countries. As a follow-up of the discussions at the events, CSD prepared two [papers](#), as well as a Practitioner's Toolkit on Drafting, Implementing, Reviewing and Improving Bilateral Agreements and Memoranda of Understanding to Tackle Undeclared Work. The Toolkit aims to assist experts with concrete guidance and easy-to-follow steps on how to develop and implement national and EU agreements to tackle undeclared work. CSD elaborated a compilation of **11 factsheets** with examples of existing tools (practical

measures, handbooks, online platforms) on tackling undeclared work in the EU. The primary focus of the factsheets was placed on tools which could facilitate the co-operation and the exchange of data between countries on different aspects of undeclared work and which may provide ideas for Member States to develop and engage through the Platform.

Additionally, as part of the network of local correspondents of DG Home of the European Commission, in 2017 CSD contributed to the recommendation of the European Semester.

IV. Competitiveness and the knowledge economy

In 2017, CSD continued its work on the study of the competitiveness and the innovation potential of the Bulgarian economy. In the area of innovation policy, the experts from the Economic Program contributed actively in the development of the annual report [Innovation.bg](#),



which has become one of the main policy documents for regular monitoring of innovation performance in the country. Presented at the 13th National Innovation Forum, held under the auspices and with participation of the President of Bulgaria, *Innovation.bg 2017* focuses on the place of Bulgaria in the global value chains, emphasizing the development of strong and vital automotive sector in the country. In the area of competitiveness, the Economic Program analysed the barriers to the Bulgarian business and provided recommendations for improvement of the overall competitiveness landscape. CSD is partner for Bulgaria of the World Competitiveness Center at the International Institute for Management Development (IMD), Switzerland, which publishes the World Competitiveness Yearbook. According to its 2017 edition, the Bulgarian econo-

my is slowly emerging from stagnation, but Bulgarian politicians and business managers have failed to improve the competitiveness of the country during the 10 years of its EU membership.

The key competitiveness challenges for Bulgaria in 2017 included: improving judicial performance to tackle high-level impunity; modernizing public administration and independent regulators to reduce corruption and improve market competition; improving the quality of healthcare and education to reverse the brain drain and population decline; enhancing EU funding priorities and delivery system with a focus on economic and social impact, rather than absorption; completing energy market liberalisation and diversification with a focus on consumer engagement and low carbon emissions.

