

BTI 2010 | Bulgaria Country Report

Status Index	1-10	8.36	# 14 of 128	
Democracy	1-10	8.75	# 14 of 128	➔
Market Economy	1-10	7.96	# 16 of 128	➔
Management Index	1-10	6.73	# 13 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	7.7	HDI	0.84	GDP p.c.	\$	11222
Pop. growth	% p.a.	-0.5	HDI rank of 182	61	Gini Index		29.2
Life expectancy	years	73	UN Education Index	0.93	Poverty ²	%	2.4
Urban population	%	70.8	Gender equality ¹	0.61	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The period under review coincides with the first two years of Bulgaria's experience as a member of the European Union. During these two first years of membership the course of democratic and economic reform was dominated by continuing efforts to catch up with European standards in almost all spheres under review. Although there is evidence that this process slowed after the goal of accession was achieved on 1 January 2007, the European Union possesses other mechanisms by which to exert influence, such as the cooperation and verification mechanism (CVM) associated with judicial reform, the fight against organized crime and corruption control. The regularly dispatched monitoring reports proved to be an efficient tool in sustaining reform efforts, although their efficiency in producing concrete results remains to be seen.

Bulgaria has enjoyed high rates of economic growth and improved economic performance, but the value of gross domestic product per capita remained the lowest among EU countries, roughly one-third of the EU average at PPP basis. During the review period, the Bulgarian government deviated from most anti-poverty policies, instead embarking on a neoliberal model. By the end of 2008 and beginning of 2009, the country's economy and industrial base suffered unexpected losses from the global financial crisis and the gas dispute between Russia and Ukraine. In the last two months of 2008 the large budgetary surplus generated by pursuit of liberal economic policies vanished nearly in total, applied to social security buffers and unexpected budgetary gaps. EU accession has boosted the confidence of foreign companies, which invested more than ever before in Bulgaria during the last several years. However, by the end of the period under review, highly optimistic forecasts were already being revised. Following the slowing of world economy Bulgaria is likely to expect lower foreign demand and a drop in capital inflows, which have been an important source of the country's high growth rate so far. A significant amount of EU pre-accession funds have been suspended. Much of this amount had been dedicated to projects already under contract and/or strategically planned infrastructure initiatives; these initiatives will now have to be covered by budgetary resources, meaning that Bulgarian citizens will effectively pay for them twice.

Although a number of indicators point to strengthened economic stability, Bulgaria's economic growth has not helped improve the governance of the country. In 2007 – 2008, political corruption and the judiciary's inability to deliver concrete results (and thus meet citizens' expectations) deepened social frustration and mistrust in the established democratic institutions and damaged Bulgaria's international image. The second part of the ruling three-party coalition government's term saw an unprecedented number of street protests and an emerging civil society activism, launched by youth critical of the pace of the 20-year transition to democracy and market reform. The ruling coalition led by the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (MRF) and the National Movement Simeon II (NMS II; now renamed as the National Movement for Stability and Progress, NDSV) survived six motions of no confidence in the National Assembly. However, the continuing erosion of the classical left-right cleavage resulted in the emergence of new opposing formations outside the parliament and a new type of claims for social representation.

History and Characteristics of Transformation

The process of transformation to democracy and a market economy in Bulgaria has proved slow and incoherent. As a consequence, structural economic reforms have been delayed. Unlike other Central and Eastern European countries, Bulgaria's dissident movement has been relatively weak. In 1989 the former communist political elites began a gradual transition and smooth process of reform in order to avoid social cataclysm, but also for the sake of keeping control. In April 1990 the Bulgarian Communist Party was renamed the Bulgarian Socialist Party (BSP) and formally embarked on a new democratic course. Political pluralism was introduced rapidly in Bulgaria as new parties and civil movements entered the political scene. The Union of Democratic Forces (UDF) was created as an umbrella movement by a number of parties and organizations less than a month after the fall of communism in late 1989. It became Bulgaria's main anti-communist party in the mid-1990s. The BSP was able to take advantage of its strong inherited personal, administrative, logistic and organizational structures and in June 1990 won the first democratic elections.

In January 1990 the Movement for Rights and Freedom (MRF) was founded, with the aim of representing the interests of the Turkish ethnic minority and other Muslim communities. In the course of fundamental political and societal shifts and economic hardship after 1989, Bulgaria managed to maintain peaceful interethnic relations. In late 1989, a Committee for National Reconciliation was established. The first truly democratic act of the new Bulgarian authorities was to restore the original names of Bulgarian Turks who had been forced to change them in the 1980s. Nevertheless, the MRF has been (and is today) considered to be unconstitutional by many people in Bulgaria, as it is organized predominantly along ethnic and religious lines. This is even the official position of one of the political parties represented in parliament – the radical nationalist party Ataka (Attack). However, the Bulgarian Constitutional Court affirmed the

constitutionality of MRF in April 1992, and the party has consistently held seats in the National Assembly since that time. BSP leaders proved willing to form a coalition with MRF in order to gain access to power in 1992 – 1994, when an MRF-BSP parliamentary majority supported the formally technocrat cabinet of Ljuben Berov, which stalled reforms. This alliance has continued up to the last parliamentary elections in 2005.

Throughout the first half of the 1990s, Bulgaria was shaken by political polarization, and showed little progress in economic reforms. The economic elite which emerged in this period was involved in redistributing or establishing indirect control over state-owned economic properties, with their actions often skirting illegality. With this process unfolding, the intertwined political and economic elite showed no genuine interest in establishing a functioning and truly impartial independent judiciary. This created the basis for a stable symbiosis between the state and private economic interests. Public approval for the way the democratic system functions has consequently remained low, despite the establishment of democratic institutions and a functioning multiparty system with the enactment of a new constitution in 1991. Although democracy has always been the preferred form of governance for the largest share of the population, the prolonged transition has been perceived primarily as a loss of stability and state order.

In the period from 1994 to 1997, the BSP government of Jean Videnov proved unable to carry out rigorous structural reforms. As a result, in 1996 – 1997 Bulgaria experienced its deepest crisis: GDP fell by 10.1%, the banking system collapsed and a drop in foreign reserves destroyed confidence in the national currency. A period of hyperinflation followed and the severe economic and political crisis forced an early general election in April 1997. The early elections were won by a UDF-led coalition and Ivan Kostov was appointed prime minister.

The Currency Board Arrangement, introduced in July 1997, helped to stabilize the economy and bring inflation under control. Ivan Kostov's government succeeded in performing major economic and structural reforms that had been delayed for years, and served a full four-year term. However, the lack of transparency in conducting privatization deals, allegations of political corruption, and continuing ideological polarization and confrontation ultimately pushed UDF voters away.

The popular disappointment with the “traditional parties” of the left and the right gave way to populism and the emergence of new political actors between 2001 and 2007. Until 2001 Bulgarian politics was deeply polarized between the anti-communist right and ex-communist left. Rightist reformist parties missed the opportunity to offer a viable reform agenda beyond ideological confrontation and to adapt to the novel challenges facing Bulgaria at the time. Following his party's defeat in the 2001 elections, Ivan Kostov, the emblematic leader of the reform-oriented rightists, withdrew from active politics and offended his supporters by refusing to speak to them for almost three years. Ideology lost its mobilizing force and stopped being a useful tool for the major political actors. In its place, nationalist populist rhetoric proved to be a better way of mobilizing support.

In the run-up to the 2001 elections, the political movement headed by Bulgaria's pre-communist monarch Simeon Saxe-Coburg-Gotha (Saxkoburggotski) won a landslide victory. The popular appeal of his promise that he would "make the country prosper in 800 days," and the powerful symbolism of his return, brought his allies almost 50% of National Assembly seats. The most recent general elections, on 25 June 2005, yielded the most complex outcome in the country's post-communist history. Seven political forces surpassed the 4% election threshold.

Since 1990, Bulgaria has had 10 different governments: two post-communist (Andrej Lukanov 1990; Jean Videnov 1994 – 1997), two center-right (Filip Dimitrov 1991 – 1992; Ivan Kostov 1994 – 1997), two expert cabinets (Dimitar Popov 1990 – 1991; Ljuben Berov 1992 – 1994), two interim governments (Reneta Indzhova 1994, Stefan Sofijanski 1997), the centrist government of the National Movement Simeon II (NMS II) led by Simeon Sakskoburggotski (2001 – 2005), and the current tripartite coalition government of BSP leader Sergei Stanishev.

Transformation Status

I. Democracy

1 | Stateness

There is no challenge to the state's monopoly on the use of force in the strict sense. While contract killings persisted in the period under review, the threat posed by organized crime to state authority has not increased in comparison with previous years. As noted in the EU Commission's June 2008 report, the system of fighting organized crime seems to encounter problems at all levels. These developments cast a shadow on the state's uncontested monopoly on law enforcement, since, no matter how well-founded, allegations indicate systemic use of the state machinery for non-legitimate means.

Monopoly on the use of force

All Bulgarian citizens enjoy the same civil and political rights. The Bulgarian Constitution defines Bulgaria as a one-nation state, respecting the differences existing among Bulgarian citizens with regard to ethnicity, mother tongue, and religion. The constitution bans the formation of political parties along ethnic lines. Major groups in society accept and support the official concept of the nation-state. National authorities insist that Bulgaria's model of interethnic relations, based on civil society and pluralist democracy values, is successful. Bulgarian law does not define the term "national minority" and Bulgaria does not recognize the Macedonian identity or the Macedonian language as distinctive from Bulgarian.

State identity

The definition of citizenship and the issue of dual citizenship each have been subject to heated political debate and bargaining among the partners in the ruling coalition. In June 2007, the Bulgarian parliament rejected a proposal introduced by the nationalistic Ataka party which would have barred Bulgarian citizens from being citizens of any other country. The draft stipulated exceptions only for the Bulgarians in Greece, Macedonia, Serbia and Romania as well as Bulgarians from Bessarabia (Moldova and parts of Ukraine) and the Crimea.

In 2007, the parliament amended electoral regulations to make the right to vote contingent upon permanent residence in Bulgaria. The duration of permanent residence was set at three months prior to European Parliament elections, and 10 months prior to local elections. These provisions sought to exclude from the vote

Bulgarian expatriates in neighboring Turkey who were forced to leave their home country before November 1989, and who used to visit Bulgaria in large numbers on election days to vote for MRF.

The state is largely defined as a secular order. Religious dogmas have insignificant influence on politics or the law. The constitution provides for freedom of religion and of belief, and stipulates that the state shall assist in the maintenance of tolerance and respect among believers of different denominations, and among believers and non-believers. The constitution prohibits religious discrimination, but designates Eastern Orthodox Christianity as the “traditional” religion. The government provides financial support to the Orthodox Church, as well as to several other religious communities perceived as holding historic places in society, including Muslim, Roman Catholic and Jewish religious groups.

No interference of religious dogmas

The Bulgarian Orthodox Church has a relatively weak place in society. In comparison with its counterparts elsewhere, the church is a weak political actor and does not actively participate in public debates on policies such as bioethics or abortion.

On 28 January 2008, the Ministry of Education and Science presented a concept paper on introducing religion as a compulsory school subject. The document was developed by a public council, but prompted considerable public controversy. The main reason for introducing religion as a school subject was that “it would build up students’ moral beliefs on the basis of universal human rights.”

Bulgaria has all fundamental structures of a civilian state apparatus. State resources are extracted and allocated on a broad-ranging basis.

Basic administration

2 | Political Participation

There are no legal constraints on free and fair elections in Bulgaria. During the period of review, the fifth local elections since the beginning of transition to democracy in 1989 were held on 28 October 2007. On 20 May 2007 Bulgaria also held its first European election for members of the European parliament. Since 2007, EU citizens have been entitled to take part in Bulgarian local elections. Both elections held in 2007 were characterized by low voter activity, vote buying, the influence of business seeking local representation, and mobilization of voters along ethnic lines, including the organized transportation of voters. Whereas buses from Turkey have become customary in every election, election day tourism from Macedonia was a relatively new development, with 2,800 voters traveling to Bulgaria to vote in the towns of Sandanski and Blagoevgrad.

Free and fair elections

However, the most significant and worrisome feature of the latest local elections was widespread vote buying. On 18 October 2007, the Bulgarian parliament

adopted new changes to the penal code that increased punitive measures for vote buying, including sanctions for citizens who sell their votes. However, the manipulation of voting remained a serious issue. The mass media exposed many specific methods of controlling the vote, including the use of cell phone pictures or specific signs to mark the ballots. The phenomenon, usually associated with Romani communities, this time took place across all ethnic groups and municipalities. Bulgarian NGOs estimated that the money spent to buy votes exceeded BGN 200 million (more than €100 million). Prosecutors launched more than 20 subsequent investigations under the newly amended penal code. However, these resulted in the imposition of just one fine of BGN 1,000 (about €500). Although the Central Election Commission said there were no grounds for the election results to be appealed, the practice of vote buying is becoming so pervasive that it virtually discredits democracy in the eyes of Bulgarian citizens.

Democratically elected rulers do have the effective power to govern and no political enclaves exist. Civil-military relations are well established in Bulgaria.

Effective power to govern

The freedoms of association and assembly are enshrined as basic constitutional rights. Restrictions on the freedom of association include prohibition of activities aiming to violate the country's sovereignty and national integrity or the unity of the nation; activities aiming to incite racial, national, ethnic or religious enmity; and activities violating the rights and freedoms of citizens. The constitution prohibits the formation of political parties along ethnic lines. The Movement for Rights and Freedoms continuously maintains that it is not an ethnic party and promotes only a minimalist minority-rights agenda. Still, many Bulgarian citizens see it as a de facto ethnic Turkish minority party that violates the Bulgarian constitution. However, it seems this particular controversy has recently lost momentum, as popular discontent with the MRF has mounted in relation to the party's lack of transparency and suspected intertwining of political and business interests of its political leadership, characteristics viewed as detrimental to its ordinary voters' interests.

Association / assembly rights

The period under review was marked by a great number of protests and rallies initiated by environmentalist, civic and human rights groups, students, and industrial and professional groups such as teachers, miners, taxi drivers, foresters, transport workers, and more. Municipal officials have often imposed bans and restrictions that violated the right to peaceful protests. During the first half of 2007, the Sofia municipal administration banned or restricted almost all environmentalist action, including the regular protests in support of the full implementation of the European Union's Natura 2000 Program, which were held every Thursday in front of the Council of Ministers building. According to reports by the Bulgarian Helsinki Committee, the complaints filed against the bans were not reviewed within the 24-hour period stipulated by law; instead, they became the object of quarrels and exchanges between the Sofia City Court and the Sofia Administrative Court.

In the 2007 – 2008 period, the Bulgarian parliament discussed a total of eight proposed amendments to the Political Parties Act, three of which were approved. The latest amendment, passed in January 2009, primarily concerns the financing and financial oversight of political parties. In November 2008, the authorities of Bulgaria requested the Venice Commission to provide an opinion on the Bulgarian Political Parties Act, which came into effect on 4 January 2005, was amended and supplemented in 2007, and had draft amendments proposed in 2008. According to the Venice Commission, the literal reading of the provision, defining political parties as “voluntary associations of Bulgarian citizens holding electoral rights, may lead to the interpretation that non-Bulgarian citizens are barred from being members of political parties or to the least radical interpretation that political parties which do not have Bulgarian citizens are barred.”

The commission also wrote that the thresholds for party registration were obstacles that would be very difficult or simply impossible to overcome. On several occasions during 2007 and 2008, minority groups were unable to obtain registration as legal entities in Bulgaria. One of the most longstanding disputes involves the repeated denial of registration for OMO Ilinden-PIRIN (United Macedonian Organization “Ilinden”-Party for Economic Development and Integration of the Population), most recently confirmed by the Sofia City Court on grounds of signature forgery in January 2009. In October 2005, the European Court of Human Rights in Strasbourg judged that Bulgaria violated the right to freedom of expression and association of the Macedonian minority, ruling that OMO Ilinden-PIRIN should be registered. Although the party leadership maintains that there was political pressure on the court to deny registration, the national court decisions are based on the repeated incompliance of the party’s documents with the requirements and membership thresholds for registering a political party in Bulgaria.

According to the 2008 Report on International Religious Freedom on Bulgaria, laws executing constitutional provisions are ambiguous, giving scope to arbitrary decisions with respect to public practice of religion by unregistered groups. However, despite initial fears that the 2002 Denominations Act would restrict religious organizations other than the Bulgarian Orthodox Church from operating freely, the number of groups registered with the Sofia City Court has increased from 36 in 2003 (when the court was created), to 85 in 2007 and 96 in 2008.

Bulgaria is moving towards a sustainable and professional media sector, but economic and political interests still have direct or indirect influence over the media. The pluralism of the media environment has evolved steadily over the last several years, and continued evolution in this respect was the most notable aspect of the country’s media development during the 2007 – 2008 period. Currently there are 446 newspapers, 95 radio stations and 102 television stations in Bulgaria. The intensive media consolidation and intense economic competition calls the ability of outlets to maintain their independence from the economic interests behind them into

Freedom of
expression

question. At the same time, big media groups are putting enormous competitive pressure on small independent outlets. Bulgaria's rank in the Press Freedom Index decreased from 35th place in 2006 to 59th in 2008. Bulgarian media is rated as "partly free" in the latest Freedom House report. Free speech in Bulgaria also received relatively low scores in the 2008 report on Media Sustainability: "As a whole, Bulgaria meets the international standards as regards the legal guarantees for the freedom of speech and media independence. However, a mixture of political and economic interests is posing obstacles to the proper implementation of the laws." There are not enough effective legal measures allowing redress for violations of the freedom of speech. Political control exists – both the Council for Electronic Media and the Communications Regulation Commission are controlled by the government and, to a lesser extent, the president. During the period under review, control by publishers and media managers over the contents of their publications continued. Self-censorship also remains a serious problem. Transparency of media ownership continues to lag. The general opinion among media professionals is that a self-regulatory system for registering media ownership could be effective only if there were consensus on the need for this step.

Violence and threats against journalists continue to be a problem. In September 2008, the editor-in-chief of Bulgarian news site Frog News, Ognyan Stefanov, was severely beaten by three disguised attackers in Sofia. NGOs supporting free speech and independent media are less active than in previous years.

However, a new trend has emerged. Bulgarian Internet-based chroniclers or bloggers are increasingly involving themselves in issues traditionally dealt with by professional journalists and free-expression advocates. In 2007 young Bulgarians launched numerous blogs intended to contribute to the protection of human rights, media pluralism and provide checks on the actions of the administration. Part of this activity was also in response to pressure by police authorities and political pressure against unpopular Internet publications and other public events. In 2007, a prominent Bulgarian blogger was summoned by the General Directorate for Combating Organized Crime because he shared information on his blog calling for flash mob protests against a controversial Supreme Administrative Court decision revoking the national park status of territories in the Strandzha mountains.

It seems that in their efforts to ensure rule of law, Bulgarian security authorities have yet to learn how to observe democratic norms. However, state authorities' silence on nationalist, racist and anti-Semitic public events and publications has continued. During the period under review, no state body showed any interest in the anti-Semitic and anti-minority messages transmitted on a daily basis by the SKAT television channel.

The power of mainstream nationalist pressure against minority opinions, which is also exerted by the president's office, was exemplified in a 2007 scandal associated

with a project by two Berlin Free University researchers, Martina Baleva and Ulf Brunnbauer. The project, “Batak as a Place of Memory,” aimed to show how the 19th century Batak massacre was depicted in a painting by a Polish artist which illustrated the role the event plays in the Bulgarian collective memory. Bulgarians commemorate Batak as a place where Turks conducted mass slaughter of the local Bulgarian population, following an uprising against Ottoman rule. The idea that these memories could be interpreted by a Polish artist was controversial. Although the authors never denied the existence of the massacre and even stated this in an open letter, nationalist circles targeted them in one of the largest such campaigns of the post-communist period.

3 | Rule of Law

State power is divided into three branches: legislative, executive and judiciary, with a system of separated powers and checks and balances. Amendments to the constitution in 2006 and 2007 altered the division of jurisdiction between the Supreme Judicial Council (SJC) and the executive, particularly by restricting the SJC’s budgetary powers and rendering it accountable for its own performance. The constitutional amendment of February 2007 aimed to strengthen the judiciary’s accountability without compromising its independence. In particular, the amendment further qualified magistrates’ immunity from criminal prosecution and introduced a requirement that the SJC report annually to parliament on the activities of judicial bodies.

Separation of powers

Though the separation of powers works effectively in Bulgaria, the two major legislative initiatives designed to increase judicial accountability failed to produce results, and the system of checks and balances does not work properly. The first hearings of annual reports by the chief judges in the Supreme Court of Cassation, the Supreme Administrative Court and by the Prosecutor General took place in 2008; however, parliament showed little interest and the reports had no further policy relevance. Furthermore, the government established a new powerful player in January 2008 – the State Agency of National Security, charged with the prosecution of corruption – that has substantially shifted the balance of power in favor of the executive. The new agency has been given a dual mandate as a security structure and a law enforcement body. This, according to the European Commission, needs further clarification.

The principle of judicial independence is enshrined in the constitution. Unlike that of most European countries, the Bulgarian judicial system consists of three groups of magistrates: judges, prosecutors and investigators. During the period under review, Bulgaria enacted constitutional amendments in February 2007, and adopted a new Civil Procedures Code, a new Judicial System Act and the associated implementing legislation. These laws confirmed the independence of the judiciary.

Independent judiciary

They provided for the establishment of a Supreme Judicial Council (SJC) as an independent elected body charged with overseeing the governance of the judiciary, thus ensuring that the principle of judicial independence is observed. An independent judicial inspectorate was set up and launched its first inspection missions in 2008. However, the inspectorate was wrongly perceived as a body with the power to monitor judicial integrity, and to follow up on complaints against members of the judiciary. Rather, its constitutionally granted powers allow it only to investigate delays in pending cases, and it has not yet produced any serious findings.

Recent reforms have focused on legislative and procedural changes, while measures to improve judicial performance have been somewhat fragmented. The Bulgarian judiciary has been for years in a state of constant reform, procedural change and institutional revamping, but results to date have been modest. It appears as if the root cause of the judiciary's problems lie not so much with the institutional set up but with the unwritten norms and values of the actors vested with judicial authority. In view of the weaknesses in the rule of law and in the judicial system in particular, the European Commission introduced a special Cooperation and Verification Mechanism to track Bulgaria's (and Romania's) post-accession progress, elements of which relate to the judiciary. According to a World Bank report, benchmarking Bulgaria's judiciary indicates that overall it is comparable to other European countries in terms of resource indicators important for judicial functioning.

After the publication of the EU Commission's 2008 report, the government adopted a schedule of urgent measures and actions aimed at eliminating the causes of criticism. An action plan focused on judicial reform progress indicators was prepared in accordance with the commission's report from June 2007. The Ministry of Justice has continued to develop a new Strategy for Judicial Reform, with the government's efforts focused on constitutional and legal changes affecting the judiciary, on issues including enforcement of judgments, the commercial register, information technologies in the judiciary and access to justice. Public presentation of the strategy was envisaged for the first months of 2009.

The structure and composition of SJC are a significant element in the analysis of its independence. More than one third of the council's members are elected by the legislative branch, while a representative of the executive chairs the sessions of this supreme body of judicial power.

The EU Commission has noted that high-level corruption remains a serious problem for Bulgaria. Corruption scandals led to the resignation of Minister for Economy and Energy Rumen Ovcharov and Interior Minister Rumen Petkov, respectively in 2007 and 2008. The number of detected high-level corruption cases is as negligible as the proportion of the crimes effectively punished. By the end of 2007, all Bulgarian central administration institutions had introduced assessment systems

Prosecution of
office abuse

based on corruption risk. Qualitative data on the inspection methodology and the number of checks concerning corruption was not available at the time of this writing. According to the EU Commission, 64 disciplinary proceedings took place in the first half of 2008. As a result, six employees were temporarily suspended from work, 20 were dismissed and 35 cases were referred for prosecution.

In July 2008, the commission suspended the payment of €500 million in pre-accession funds after observing numerous financial irregularities and conflicts of interest. The first and most prominent scandal provoking this move involved Vesselin Georgiev, head of the state-owned National Road Infrastructure Fund (NRIF) and his brother, Emil Georgiev, to whom NRIF had assigned work worth 120 million leva, to be paid with EU funds. It was not until the commission remarked on the scandal that Georgiev resigned. Another pending court case of great public interest given a green light during 2008 was that of the Mario Nikolov/Lyudmil Stoykov group, which allegedly embezzled millions of euros from the Special Accession Program for Agriculture and Rural Development (SAPARD). In July 2008, a report on Bulgaria's deficient handling of European Union funds, conducted by the EU's European Anti-Fraud Office (OLAF), said authorities suspected millions of euros were being embezzled by "a criminal network composed of more than 50 Bulgarian, European and offshore companies, controlled and/or financed by Mario Nikolov and Lyudmil Stoykov, suspected of having close ties to the current government," alluding to Stoykov's ties with President Georgi Parvanov, a fellow townsman from Pernik.

To address the EU concerns, Bulgaria's parliament on 16 October 2008 adopted a new Law on Conflict of Interests. The new law aims to prevent fraud, including incidents related to EU funds, by making all public administration officials declare themselves to be free from influence peddling.

Amendments to the constitution in 2006 and 2007 limited the immunity of prosecutors from criminal prosecution and created a Supreme Judicial Council as an oversight body elected by parliament. Numerous changes in the justice system's legal framework have also been adopted, aimed at, among other things, effective disciplinary procedures. Most notably, a genuine process of investigation and prosecution of abuses by individual prosecutors was begun. The Inspectorate to the Supreme Judicial Court was meant to be the key supervisory institution with respect to judicial integrity, but in reality this body was never given the powers that would allow it to live up to these expectations. Rather, it is one of several bodies which can propose disciplinary sanctions for magistrates and the administrative heads of judicial agencies. In the first five months of 2008, nine procedures against magistrates were reported, compared to 17 proceedings for the whole of 2007. This can be considered as weak, given that there are 1,821 professional judges, 1,558 prosecutors and 546 investigating magistrates in Bulgaria. The inspectorate's activities resulted in only two proposals to the SJC for disciplinary sanctions against

magistrates, but there were no SJC decisions on these cases. The inspectorate thus does not seem to have played any significant role in investigating corrupt practices within the judiciary.

On 1 January 2008, the State Agency of National Security (SANS) was formed at the order of Prime Minister Stanishev, launching with a high level of public expectations. SANS managed to secure the arrest of several government officials accused of conflict of interest, abuse of power or taking bribes. Nevertheless, SANS' first achievements proved highly controversial and plagued with scandals. In September 2008, the chair of the parliamentary committee on internal order and public security announced to the media that SANS had gone through his and other legislators' phone records without reasonable grounds, triggering paranoia in Bulgarian society and confusion among institutions.

Bulgarian authorities respect the human rights of citizens in general, but problems exist in several areas, notably regarding discrimination against minorities, particularly Roma, and people with mental disabilities. The Bulgarian National Union became infamous in 2007 when it put together a small national guard, which the group said would protect Bulgarian citizens from "the threat of the Roma." In 2008 the group initiated a "week of intolerance" in the wake of the Sofia gay parade march, with the motto "Be normal, be intolerant." The Decade of Roma Inclusion Watch reported that the number of complaints lodged by Roma and non-Roma before the Anti-Discrimination Commission, which endeavors to rectify unfair treatment, increased from 389 in 2006 to 649 in 2007. In January 2007, the government approved a National Plan for Protection Against Discrimination, addressing all areas of discrimination already acknowledged by Bulgarian legislation. The Bulgarian Ombudsman intervenes when citizens' rights and freedoms have been violated by actions or omissions of the state, the municipal authorities and their administrations, or by the persons responsible for the provision of public services. In its annual report of activity, the Ombudsman reported that 11% (361) of all complaints received in 2007 concerned violations of basic rights and freedoms, whereas the majority of violations referred to the provision of public services. No information regarding activity by the Ombudsman relating to complaints by Roma could be found.

Civil rights

In 2007 Bulgaria lost a total of 520 cases before the European Court on Human Rights (ECHR). A further 1,838 suits were in progress against the country, and this number increased in 2008. According to the Ministry of Justice, the ECHR sentenced Bulgaria to pay a total of BGN 1.9 billion to Bulgarians suing the state for human rights violations during the 1999 – 2007 period. In 2008, Bulgaria's Justice Ministry set up a special group of magistrates that will be responsible for observing human rights suits against the country at the ECHR.

Bulgaria is one of the primary countries of origin for the trafficking of human beings, and Bulgarian women are often victims of internal trafficking. Bulgarian organized crime groups are considered the second most active in Europe in human trafficking, led only by Albanian criminals. In the first ten months of 2008, 193 cases of human trafficking involving 246 Bulgarian victims were investigated; 44 persons were sentenced. The prosecution authority has reported great difficulties investigating human trafficking cases because of the unwillingness of the victims to testify against their abusers out of fear.

Reports on local authorities demonstrating intolerance against minority religious groups have increased. Most disturbing is the general public's discrimination against, harassment of, and intolerance of religious minorities, particularly expressed in the media. Political party Ataka continued to publish anti-Semitic material in its newspaper, on its Web site, and on the SKAT cable television channel. In October 2007, the Ataka party relaunched a campaign to silence the speakers on the Banya Bashi mosque, the only Muslim temple in Sofia, claiming that the invitation to prayer was disturbing people in the capital's central area.

4 | Stability of Democratic Institutions

Bulgaria's democratic institutions, including the judiciary and administration, perform their functions with moderate effectiveness, and are free from extensive, counterproductive friction. Bulgaria is a parliamentary democracy and the constitutional powers vested in the prime minister and the government endow these institutions with significant influence. The president has a limited role, mainly exerting influence on foreign and defense policy, and though his veto powers on legislation. However, second-term President Georgi Parvanov, a former BSP leader, has managed to position himself in the political process in such a way as to exert informal influence on decision-making.

Performance of
democratic
institutions

Since the beginning of its mandate in 2005, the government has survived numerous no-confidence motions filed by the opposition, five of which came in the 2007 – 2008 period. Internal frictions have also been common. Despite some clear differences between the coalition parties, the government has managed to preserve coherence, but its internal body – the Coalition Council of party leaders – cannot be regarded as fully transparent and accountable.

Despite demonstrated efforts to pursue sound liberal economic policies and behavior consistent with EU norms and expectations, the government has faced numerous scandals and roadblocks, including scathing reports by the EU Commission and the freezing of EU funds due to allegations of high-level corruption and mismanagement. Between the lines of the official statements, one has been able to read apprehension that large scale projects are won by political

parties' sponsors, or are distributed to political parties' allies. This apprehension is perceived as just by the general public and independent experts.

The Bulgarian parliament has continuously faced difficulties in coping with parliamentarians' practice of voting on behalf of absent colleagues. Recently a new voting technology was introduced in parliament that monitors the exact number of deputies present at any given moment before the vote. The new system requires legislators to vote using only their own cards. Data released by the Civil Control over Parliamentarianism group emphasizes that sessions where the number of actual votes exceeds the number of attending members is not unusual. A survey on parliamentary decision-making in the past three-and-a-half years revealed that 56% of votes technically failed to comply with the law because the required quorum of legislators present had not been reached. According to data announced by the project, in as many as 542 votes in Bulgaria's 40th National Assembly, measures were approved without the positive vote of more than half of the registered MPs. In just 74 of these votes, the minimum quorum of 121 MPs present had been established. Some 468 decisions, however, were passed without a quorum present, which violates provisions of Bulgaria's constitution. The parliament released an official statement in response, stating that if the absence of quorum was not reflected in the protocols, the Constitutional Court had no grounds to rule on the legitimacy of a vote.

All relevant political and social players accept democratic institutions. The leader of the Ataka party significantly moderated his nationalist rhetoric following the party's entry into parliament in 2005, in an effort to prepare for future possible coalitions.

Commitment to democratic institutions

5 | Political and Social Integration

The period under review was marked by continuing fragmentation and organizational instability in the party system. In 2007 and 2008, discussions about early elections, changes to the constitution, amendments to the Political Parties Act and change to the political model were high on the political agenda. In the intermediate turbulent period before and following EU accession, the Bulgarian party system's ability to articulate and aggregate societal interests and mediate between society and the state was put to a test. Of those citizens eligible to vote, 45% say they have changed their party allegiance in recent years. Populism has entered the political scene due to the continued erosion of traditional parties' credibility. As a consequence, dividing lines between left and right, and also between nationalist and, paradoxically, pro-European sentiments have become blurred.

Party system

Before 2007, the accession consensus agenda dominated the political discourse. As a result, ideological differences were overshadowed by the emerging EU agenda.

The country's EU membership commencing on 1 January 2007, and the new types of challenges associated with it, reinforced the reshuffling of the Bulgarian party system.

Generally the process of fragmentation has continued, but accession has also opened new questions such as the role of business interests and their representatives, some of which have already created their own parties. One such is the Liberal Initiative for Democratic European Development (LIDER), founded in 2007 by the owners and managers of more than 20 Bulgarian companies dealing with energy, construction, transport, and foods industries. These business interests opted for direct participation in politics, rather than relying on the intermediation of politicians. Though their influence is limited at present on the national level, they may gain strength in the future. In 2008, LIDER, VMRO (the self-proclaimed successor to the interwar period's Internal Macedonian Revolutionary Organization) and the People's Agrarian Union (ZNS) signed a coalition agreement with the intention of participating in the upcoming national parliamentary vote and the 2009 European Parliament election with a single goal – to make the new coalition, called Movement FORWARD (Dvizhenie NAPRED), a political factor as a centrist movement. Phrases like “new policy of business consolidation,” “national ideals” and “goals beyond politics” have thus entered the political debate.

Informal leadership is another common feature of the relatively new political formations that emerged after the 2005 parliamentary elections. The trend was first introduced by the current mayor and informal leader of Citizens for European Development of Bulgaria (GERB), Boyko Borissov, who managed to win a second term as mayor of Sofia in 2007. The trend was continued by businessman Hristo Kovachki, one of the richest persons in Bulgaria, who is believed to be the informal leader of LIDER. GERB, the country's most influential non-parliamentary organization, was initially registered as a civic organization in 2006 using the slogan “goals beyond politics,” but the group was soon transformed into a party. GERB performed very strongly in the May 2007 European parliamentary elections, and in the local elections in October – November 2007, winning the highest number of votes on both occasions. As a result, it was officially admitted as the 5th Bulgarian party to join the European People's Party on 6 February 2008. GERB has sought to topple the government with means of endless negotiations for coalitions between the right-wing formations, and by utilizing public discontent, but with no success. Despite its initial gain in popular support, there are signs it is now losing ground.

The parties of the governing coalition were involved in a series of scandals due to their often-diverging agendas and conflicting interests. Bargaining based on a quota principle for distribution of power and control over state institutions, agencies and resources blurred the distinctions between political programs and ideas, and undermined political responsibility. The prime minister's party, the coalition's most

clearly defined left-wing party, proved ready to promote right-wing or neoliberal economic measures. This increased public disappointment and confusion, because such measures conflicted with the expectations generated by the BSP itself. There are signs that the left-wing political space is also subject to change, although no one talks openly about disintegration. The NMS II has played an increasingly nominal role within the government due to its extremely reduced social basis and political influence. The government mandate-holder MRF, which has been the subject of allegations for years, also suffered a blow after a rash of public scandals and allegations of corruption provoked by the mysterious suicide of party leader Ahmed Dogan's chief of staff, Ahmed Emin, in late 2008.

The first European elections in Bulgaria were marked by an extremely low voter turnout of 28.6%. The ruling parties attracted a relatively small share of the vote, while right-wing and populist parties and populism gained. The local elections in October 2007 deepened the shifts in the political spectrum. The traditional right-wing parties, UDF and DSB, performed poorly, while Ataka somewhat stabilized its party structures and influence in certain areas, and showed signs of growing mobilization. The Movement for Rights and Freedoms expanded its presence in local government, claiming to have become a national liberal-democratic formation. GERB gained greatly in the local elections and received its first chance to participate in the governing process. Due to the local elections' high rate of reelection, one could conclude that local government seemed to be growing more stable than the central government. In addition, strong economic interests have taken shape in all municipalities. In many places around the country, business parties have acquired substantial political presence.

During 2007 – 2008, the opposition was as disunited as it was throughout the previous eight years. Attempts to reunite and integrate the parties of the Bulgarian right continued with little success. There is still no major alternative to the three-party coalition, despite the cabinet's low approval ratings. Right-wing parties continued in disarray, failing to send a single member to the European Parliament. UDF changed its leadership, bringing Plamen Yurukov, a local businessman, to the chairman post, but he soon gave up the position following a blow to his image after alleged participation in a money-laundering scheme. Martin Dimitrov, a member of parliament, was elected new leader of the UDF in December 2008 after a second round of intraparty elections that engaged about 70% of the party's 10,000 members. In December 2008, UDF urged the other center-right parties belonging to the EPP to unite in a common parliamentary group. The Bulgarian People's Union (BPU) is a coalition of the Union of Free Democrats (UFD), BZNS-PU and VMRO. Coalition ties are very weak and the only thing holding the BPU together is that the three parties together have 13 members of parliament, while at least 10 are needed to form a parliamentary caucus.

The remaining opposition party, Ataka, has lost ground due to internal conflicts, which have driven almost half of its parliamentary members to leave the party. Founded in 2004 as an anti-globalist, anti-EU accession and anti-government party, Ataka moved to the extreme right wing and won national and European parliamentary seats. The party platform has seemed to resonate with social justice expectations apparently derived from the era of state socialism. Party leader Volen Siderov has dramatically reduced the racist and anti-Semitic rhetoric in his speeches, thus potentially allowing his party to be included in the next governing coalition. Recently there has been media speculation about a future “patriotic” coalition between GERB and Ataka, but all forecasts are highly uncertain. GERB officials did not deny these rumors, because GERB’s social base overlaps with that of Ataka party. On the other hand, Ataka has a very negative image due to ongoing scandals involving pedophilia and perjury. These negative factors have decreased the party’s popularity but any forecasts about its future standing remain highly speculative.

Societal interests are relatively well represented in the political system. Bulgaria has established an institutional framework of social dialogue and social partnership at all levels. Interest group participation in politics is unregulated by lobbying restrictions. By early 2009, the National Assembly had not yet voted on a draft law regulating lobbyist activity. There is a common confusion between lobbyist activities and advocacy, the latter being performed extensively by non-governmental organizations. Concerns over trade unions’ bargaining behavior have persisted, as they are often suspected of striking deals with the government. Some developments indicate a mobilization of nationalist interests, including the established nationalist and anti-Roma Bulgarian National Union, whose activity however should not be overestimated. The most popular current opposition party, GERB, was initially registered as a civil society organization in an effort to capitalize on public discontent with traditional parties and government policies. Other newly established political formations try to tap non-party appeal, which contributes to the continuing confusion between politics and policy formulation in Bulgaria.

Consent to democracy is undisputed among Bulgaria’s population today, and political protests do not call the constitutional framework into question. Bulgarian citizens’ decreasing trust in democratic institutions, including parliament, the government and political parties, should be taken seriously. Nevertheless, it largely displays a deep disappointment with mainstream political elites and the distorted political culture, rather than mistrust in democracy per se. According to the latest Eurobarometer survey, 34% of Bulgarians consider EU membership to contribute to democracy in the country, and 37% consider democracy to be the value best representing the European Union. A clear majority of Bulgarian citizens have more trust in the European Union than in their own government, by a clear margin of

Interest groups

Consent to
democratic norms

63% to 17%. According to surveys by the Open Society Institute-Sofia, the largest percentage of Bulgarian voters who would rather place their trust in European than in local institutions (54%) comes from supporters of Citizens for European Development of Bulgaria (GERB). Second is the populist right-wing and nationalist party Ataka, which indicated a 46% preference for foreign-based institutions. Even supporters of the Turkish-led Movement for Rights and Freedoms (MRF) stated that they had marginally more trust in European institutions than Bulgarian ones.

In 2008 the number of registered NGOs in Bulgaria marked an increase of nearly 53% as compared to 2003. The sector is relatively diverse, but not well organized; however, it is taking first steps in recognizing the need for and added value of network consolidation among common spheres of activity. Its capacity for advocacy and representation of interests is in the process of development. One of the major reasons for this situation is the legacy of NGO development in Bulgaria, which has long been a top-down process. NGOs have been donor-dependent for a long period of time, and following Bulgaria's entry into the European Union had to undergo a process of transformation, including a reformulation of strategies and patterns of representation. New opportunities for service provision often come into conflict with watchdog activities, which undermines credibility. On the other hand, self-organized groups, which were rare in the transition's early days, started to emerge on the local level in 2007 and 2008. There is also a new type of youth-dominated civic mobilization taking advantage of Web-based communication tools, among which number the new environmental protection movements. However, the population's general level of trust remains rather low.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Unemployment rates in Bulgaria have steadily decreased from 10.1% in 2005 (and even higher rates in previous years) to the lows of 5.8% in the second quarter of 2008, 5.1% in the third quarter and 5.0% in the fourth quarter. The employment rate of the population between 16 and 64 years of age also rose steadily, reaching 61.7% in 2007 (3.1 percentage points higher than in 2006) and 64.3% in 2008. According to the annual labor force survey conducted by the National Statistical Institute, the number of the non-registered or hidden unemployed also fell by 24.3% compared with 2006, reaching an estimated 201,100 individuals at the end of 2007 and 152,800 in the fourth quarter of 2008.

Socioeconomic
barriers

Beginning on 1 January 2007, the first official poverty line began to be calculated. For 2007 it was set at BGN 152 per month, for 2008 at BGN 166 and from 1 January 2009 at BGN 194. These calculations are based on a complex methodology created with the input of labor and business sectors, which corresponds to the Eurostat definition of poverty (60% of the equalized median income).

According to the Institute for Social and Trade Union Research, in December 2008 the cost of living for one working adult in a four-member household (two adults and two children) was BGN 527 – an increase of 9.5% on a year-to-year basis. The poverty line based on a consumer basket of 77 essential commodities and services is BGN 185.21 per person, which indicates an 8.5% rise as compared to December 2007. Trade unions call this poverty line a subsistence line, and claim it is the minimum income necessary to meet an individual's most basic needs. It is higher than the official poverty line, and results in a poverty rate of about 22% (22% of the households fall below this level of earnings, based on the Household Budgets Survey of the National Statistical Institute).

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	24647.5	27187.7	31656.4	39549.2
Growth of GDP	%	6.6	6.2	6.7	6.2
Inflation (CPI)	%	6.3	5.0	7.3	8.4
Unemployment	%	12.0	10.1	9.0	6.9
Foreign direct investment	% of GDP	10.8	15.9	23.7	22.7
Export growth	%	12.7	8.5	8.7	5.2
Import growth	%	14.5	13.1	14.0	9.9
Current account balance	\$ mn.	-1671.1	-3347.0	-5863.2	-10039.6
Public debt	\$ mn.	7413.7	5075.2	5065.9	5242.7
External debt	\$ mn.	15640.9	15699.7	20989.6	32967.9
Total debt service	% of GNI	9.4	14.5	8.9	11.1

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	1.6	3.4	3.4	3.5
Tax Revenue	% of GDP	21.8	23.0	23.6	24.6
Government consumption	% of GDP	18.3	18.7	16.6	16.2
Public expnd. on edu.	% of GDP	2.5	4.5	4.2	-
Public expnd. on health	% of GDP	4.6	4.7	4.1	-
R&D expenditure	% of GDP	0.5	0.5	0.5	0.5
Military expenditure	% of GDP	2.6	2.6	2.4	2.6

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since 2002, the EU Commission has concluded in its regular reports that Bulgaria is a functioning market economy. The Commission for the Protection of Competition, responsible for state aid control and antitrust matters, plays an important role in liberalization of Bulgaria's economy. In preparation for EU accession, Bulgaria continued to strengthen its competitive markets. During the period under review, there has been no general improvement in the ease of doing business in Bulgaria. The country was ranked 44th in the World Bank's Doing Business 2007 report, and was 45th in 2008. Indeed, market entry has been facilitated by removing some of the obstacles to registration and licensing, but other aspects of the business environment such as property registration, construction permits and investor protection have deteriorated. There are fundamental concerns as to the application of EU public procurement rules, especially in the case of large infrastructure projects. Most recently, the bidding procedure for the Trakiya Highway was deemed unfair and in breach of the no-discrimination principle by the European Commission. Most prices are determined by the market. The government regulates electricity, water, natural gas and pharmaceutical prices. Regulation of prices in these fields lack transparency. Deficiencies are widespread in the form of corruption, inefficient bureaucracy and slow law enforcement. Attempts to reduce the grey sector by reducing taxes have proven futile. Opinions on the size of the informal sector in Bulgaria diverge widely, ranging from 12% to 35% of GDP. The most influential research on the grey economy, carried out by the Center for the Study of Democracy, estimates its size between 20% and 30% of the GDP.

Market-based
competition

A new Law on Competition was drafted in 2008, as a result of an EU-funded joint project with the corresponding Italian authority. The new law, which became effective in December 2008, pays special attention to transparency in the work of the Commission for the Protection of Competition, and to cooperation with the EU Commission and the national competition authorities of other EU member states.

Anti-monopoly
policy

There are some remaining problems with the natural monopolies regulated by the State Commission on Energy and Water Regulation. This commission is responsible for licensing and price setting in the water, heating, electricity and gas supply sectors. The civic control and transparency of the commission's work was questioned during the recent crisis over the supply of Russian gas. The bulk price of long-term gas contracts between the Ministry of the Economy and Energy and Gazprom has not been disclosed, on grounds of "commercial secrecy."

As a member of the European Union, Bulgaria applies the EU customs code and all associated regulations and commercial policies.

Liberalization of
foreign trade

The country's biggest trading partner is the European Union. Other important trading partners are neighboring countries and Russia (mainly with respect to oil and energy imports). Items holding the biggest share of imports include raw materials (38%), investment goods (27%) and energy (19%), while the remaining share of about 16% goes to consumer goods.

The significant rise in exports is a good indicator of Bulgarian companies' improved competitiveness. Exports increased by more than 20% between 2007 and 2008, and amounted to nearly 67% of GDP in the first half of 2008. In recent years, Bulgaria has been one of the few countries to increase their share in international trade. But imports on average grew even faster, as a result of which Bulgaria has a huge current account deficit. The financial and economic crisis beginning in autumn 2008 is already having an effect on demand in core Western European economies, which is in turn hurting Bulgaria's export sector and is bound to contribute to a sharp decrease in economic growth in 2009. It is expected that the crisis will lead to a decrease in the current account deficit due to contracting investment and domestic demand.

Over 80% of the Bulgarian banking sector is foreign-owned. The leading domestic cash-management banks are those with some foreign ownership. Growth was the major story in 2007 and the first half of 2008. With EU membership bringing vast amounts of new funding, banks should have plenty of chances to cofinance development projects, and new products are already being introduced for such programs.

Banking system

On the eve of the financial crisis it became clear that Bulgarian banks would not be directly affected, because they had followed a more conservative approach to banking and had not invested in innovative debt instruments or other poisonous

assets. The big danger for the Bulgarian banking system comes from the threat that mother banks facing financial constraints may withdraw their assets. Following the financial crisis the Bulgarian stock exchange experienced a loss of more than 90% of the value of traded stocks.

8 | Currency and Price Stability

The Currency Board Arrangement (CBA) continues to be the cornerstone of macroeconomic stability, providing a stable anchor and discipline to maintain tight fiscal policies. The national currency is pegged to the euro, so the central bank can only influence credit expansion to a limited extent, by putting a regulatory ceiling on lending or increasing the reserves required by commercial banks. The Bulgarian National Bank (BNB) must fully back all of its monetary assets with euros. The CBA leaves the central bank little room to maneuver in monetary policy; the BNB has one policy instrument (reserve requirement) and a limited facility to serve as lender of last resort. To support the currency regime, the Ministry of Finance has to maintain a tight and transparent fiscal policy. These instruments were used after 2006 when credit expansion rates grew beyond control, threatening the currency's stability. The Bulgarian National bank (the central bank) is fully independent from the executive, and its governor and deputy governors are appointed by parliament. The CBA's exit strategy is participation in the European Monetary Union (EMU), which according to current government plans should be achieved by 2012 at the latest. However, in recent years it has not been clear how the government was planning to keep inflation under control in order to meet EMU requirements. Bulgaria was not even allowed into the "waiting room" for the EMU, the European Exchange Rate Mechanism (ERM II). In this context, desperate proposals to unilaterally adopt the euro were put to public discussion, first spelled out by independent economists and the media and then repeated by some members of the cabinet. The debate subsided when spokespeople for the EU Commissioner for Economic and Monetary Affairs officially commented that the Commission would not tolerate any unilateral decision concerning adoption of the euro.

Anti-inflation /
forex policy

Bulgaria's pattern of development has been characterized by high growth rates accompanied by high inflation rates. Since 1997 Bulgaria has lacked specific policies to curb inflation, as the currency board has left few instruments available. Inflation was partly driven by price convergence with other EU countries, and by increase in excise duties to harmonize them with EU standards. Some price increases were driven by the dynamics of international markets, as in the case of oil and natural gas. In 2007 inflation reached an annual rate of 12.5%. Year-on-year inflation in June 2008 reached 15.3%, and then gradually dropped to 7.8% at the end of the year, following a drop in international food and fuel prices, and reduced domestic demand. Thus, for the first time in many years, the economic crisis is

putting downward pressure on prices, enabling single-digit inflation figures. Even lower inflation rates are likely in 2009, although deflation is not foreseen. Credit availability shrank rapidly, ultimately freezing almost completely; the challenge today is no longer to reduce credit expansion but to revive credit activity. This would put pressure on the CBA, a situation that may be partly offset by the government's fiscal reserve. Bulgaria may face a tough choice: devaluation, which would have a devastating short-term effect on borrowers (whose loans are typically denominated in euros) or a prolonged economic slowdown exacerbated by the sluggish performance of the export sector.

Since the IMF-proposed currency board was introduced in 1997, Bulgaria has enjoyed macroeconomic stability. The financial crisis led to a very fast withdrawal of portfolio investments from Bulgaria and a drop in foreign direct investment (FDI). The main indexes on the Bulgarian Stock Exchange marked record losses starting from the end of August 2008. Steady consumption growth has also led to rapid credit growth, filling in the very low saturation of financial markets. Inflation has been robust, reflecting strong external shocks, such as higher oil prices, as well as adjustments to controlled prices and convergence with

Macrostability

EU price levels. Public debt levels have declined, from 22% of GDP at the beginning of 2007 to about 14% of GDP at the end of 2008. Fiscal performance has been very solid with the budget close to being balanced. In 2006, a general government budget surplus of 3.6% of GDP was reported; this rose to 3.8% of GDP in 2007, and fell back to 3.0% in 2008. Liberalization of the economy, however, has led to expanding external deficits. The current account deficit reached 15.7% of GDP in 2006 and 21.6% of GDP in 2007. For the period January – November 2008, the current account deficit reached €7.5 billion – a growth of €2.1 billion compared to the same period in 2007.

The current financial and economic crisis will likely have a strong impact on the Bulgarian economy. Reduced FDI will lead to a reduction in the current account deficit, but at the expense of a sharp fall in GDP. In 2007, FDI reached a record level of €6.5 billion. The slowdown started in the third quarter of 2008, reaching €383.6 million in September and €236.3 million in October 2008.

9 | Private Property

Property rights are regulated by law in Bulgaria. The protection of property rights has improved since Bulgaria's accession to the European Union. In 2007 Bulgaria was removed from the United States Trade Representative's watch list. However, enforcement of contracts by the judiciary remains slow, while corruption is still unbridled. The survey of economic freedom carried out by the Heritage Foundation and Wall Street Journal identifies the unreformed judiciary as the main obstacle to

Property rights

economic freedom in Bulgaria; in this survey, Bulgaria received its lowest score on the issue of property rights. The judiciary's inefficiency has also been noted in the European Commission's monitoring reports, with specific attention paid to criminal justice but, *mutatis mutandis*, the observations apply to civil process as well. Benchmark Number 2 of the Cooperation and Verification Mechanism directly refers to the implementation of the new civil procedure code, which was adopted following pressure from the EU Commission.

In Bulgaria privatization started in 1992 with the adoption of the Restructuring and Privatization of State and Municipal Enterprises Act and the establishment of the Privatization Agency. A largely unsuccessful mass privatization campaign was carried out in 1996 – 1997. In 2002, the new Privatization and Post-Privatization Control Act (PPCA) was adopted, and the Privatization Agency was given the exclusive right to administer the privatization of all state-owned enterprises (SOEs). The Privatization Agency is a public authority attached to the Council of Ministers. The privatization of municipal property remained under the authority of municipal councils.

Private enterprise

Large shares of enterprises in key economic sectors have been privatized. State-owned assets remain in the energy, transport and construction sectors. There are also questions regarding further privatizations in municipally owned utility companies, such as the Heating Company in Sofia. In the period under review, the private sector was the engine of economic growth. Privatization was not always accompanied by demonopolization or efforts to create a truly competitive market, which has led to the creation of private monopolies in sectors such as telecommunications and energy supply. Some monopolies have been privatized, such as Sofia's water-supply company, and several power companies. These did not function particularly well, due to contracts which did not adequately protect the public interest. Public-private partnerships are more often than not dysfunctional, lacking in transparency and prone to corruption.

10 | Welfare Regime

Institutionalization of children continues to persist in spite of the fact that progress has been made in the integration of children with special educational needs in schools. Rehabilitation boarding schools and those for "delinquent" children together contained over 3,000 children at the end of 2008. These data indicate that the deinstitutionalization reform has only just begun, and that the number of day care facilities is still far from what will be necessary to cover needs. The trend of institutionalization of children up to three years of age has also persisted. In 2007 a BBC documentary disclosed the human rights abuses occurring in Bulgaria's institutions for abandoned children. The film produced a wave of political reactions in Bulgaria and all over the European Union, but the ultimate result was only

Social safety nets

promises to close a few more social care homes. Community-based social services for homeless people are very rudimentary, and practically none exist for people with mental disabilities.

The unemployment insurance system offers benefits to the unemployed for four to 12 months. Beyond that, the last safety net is the system of social benefits. In 2007 and 2008 the government initially reduced the time which individuals could receive social benefits to 18 months, then to 12 and finally to six months. These measures were believed to motivate the long-term unemployed and the discouraged to seek jobs. These measures put some of the most vulnerable groups, such as the Roma, in a very difficult situation. Since 2000, labor migration to the EU-15 countries – especially southern Europe (Spain, Portugal, Italy, and Greece), but also the United Kingdom, Germany, the Netherlands and other EU countries – has provided a surrogate safety net in townships that were affected by deindustrialization in the 1990s. Remittances have therefore acted as a kind of social transfer from the richer EU countries to Bulgaria. But there are many reasons to believe that the financial crisis will test the sustainability of this specific safety net.

In January 2008, a new 10% flat tax on personal income was introduced. This is one of the lowest tax rates on personal income in the world. The measure was taken to stimulate the economy but its social consequences have raised some concerns. There is as yet no assessment of either the economic or the social impact of the flat tax, so no conclusions can be made at this stage.

During the socialist era, pension funds did not exist separately from the state budget, so there was no record of contributions made by those who worked before 1990. Thus, Bulgaria faced a severe challenge related to the pension system even in the early days of the transition. In the 1990s, Bulgaria introduced the three-pillar insurance model developed and promoted worldwide by the World Bank. Currently the pension system is organized on a pay-as-you-go basis with two small capital-accumulation pillars in the form of mandatory and optional additional contributions to private pension funds. Pensions constitute a significant revenue source for households in Bulgaria, and their share in average household budgets increased by 26.2% in the 2005 – 2007 period, whereas other social transfers play an insignificant role.

Gender disparities in Bulgaria are relatively low when compared to other EU member states. Women's employment rate rose from 47.5% in 2006 to 56.7% in 2007. The Lisbon Strategy's target of a 60% employment rate for women by 2010 thus seems achievable. The Bulgarian government has adopted a gender equity strategy for the 2009 – 2015 period. The strategy aims at reducing the gender pay gap, to the point where the average salary for women should be no less than 80% of the average salary for man. The strategy also emphasizes the representation of women in politics, in central and local legislative and executive bodies.

Equal opportunity

Health care provision is plagued by difficulties, many related to the country's failed health care reform. A large number of Bulgarian citizens continue to be excluded from hospital and pre-hospital care due to the loss of health insurance. The health care system suffers from structural problems that negatively affect access to health care services for a large proportion of the population. This includes the substantial underfunding of hospital care, which leads to disparities in the level of wages between general practitioners and specialized physicians. Shadow payments in the system are common and medicines are costly; these factors lead to high private health care bills and ultimately deprive underprivileged groups such as the Roma of access to health care. Opinion polls and sociological surveys confirm that the population is by and large dissatisfied with the health care system. The sphere of hospital care still remains unreformed and this fact causes serious difficulties both for health care system employees and patients.

Equitable access to services in Bulgaria still faces many challenges. Three major issues impede equity: geographic distribution, infrastructural accessibility and impediments to access due to discrimination or poverty.

The Roma continue to be a vulnerable group in a very disadvantaged situation. According to the World Bank 2003 Report for Central and Eastern Europe, the poverty level among Roma is 10 times higher than that in non-Roma communities. Equal access to school education, especially for the Roma and children living in remote rural areas, continues to be a major problem. School dropout rates have remained relatively high, and the share of early school leavers has increased in the last two years. Policies attempting to reduce school dropout rates have failed according to the National Strategic Report on Social Protection and Social Inclusion. This negative development is at least partially due to the simultaneous introduction of two innovations: delegated school budgets and per-capita funding. In the process of these reforms, the focus was put on financial optimization and macro budgetary effects. Measures to secure school enrollment have gotten much less attention. The school dropout situation in the 2008 – 2009 school year will likely continue to be bleak. From 2007 to 2009 most of the "optimization dividend" will materialize in terms of budgetary reductions from hundreds of closed schools. However, optimization risks will also materialize in the form of increased numbers of dropouts and several cohorts of early school leavers.

11 | Economic Performance

Bulgaria has shown strong economic growth ever since the economic crisis and hyperinflation of 1996 – 1997. Growth has been fuelled mostly by strong domestic consumption and investment, but the quality of much of this growth is quite doubtful. Some was produced as a result of bubbles, like the huge construction boom of the last several years. GDP growth for 2006 was 6.2% and 6.3% for 2007.

Output strength

The year-on-year growth rate for the 3rd quarter of 2008 was still strong at 6.8%, but the effects of the financial and economic crisis started to be felt strongly towards the end of the year. The final growth rate for 2008, after all adjustments are made, will probably be much lower than in the immediately previous years. Prospects for 2009 are dropping with every forecast. The Bulgarian economy is actually very vulnerable, being extremely dependent on foreign investment, and also energy dependent

Large regional imbalances in economic activity are reflected in disparities in regional GDP. According to the most recent data available using the European Union's NUTS II regional system, more than 40% of the country's GDP in 2006 was produced in just one of the six planning regions – the southwestern planning region where the capital city is located. The least developed region, in the northwest, contributed only a little more than 4% to the country's total output.

12 | Sustainability

Bulgaria's Environment Protection Act was promulgated in 2002 and then amended many times, the last amendments being made in December 2008. Legislation on water and waste management is in place and in line with the European Union's *acquis communautaire*. Bulgaria has ratified the U.N. Framework Convention on Climate Change and the Kyoto Protocol, thus demonstrating its commitment to international efforts to reduce greenhouse gas emissions and mitigate climate change. There needs to be greater public awareness of and involvement in the implementation of legislation. An analysis of environmental democracy states that the biggest shortcoming in Bulgaria's information policy and media coverage has been the lack of attention paid to long-term health and environmental impacts.

Environmental
policy

As an EU member state, Bulgaria participates in the pan-European Natura 2000 network, which includes protected territories inhabited by rare and endangered species. The requirements of the two EU directives associated with Natura 2000 were translated into Bulgaria legislation with the promulgation of the Biological Diversity Act in 2002. However, the implementation of Natura 2000 in Bulgaria was very controversial and marked by numerous protests by environmental organizations and landowners in the territories which the government designated for protection. On 15 February 2007, the Bulgarian government opted not to submit almost half of the suggested Natura 2000 sites for reassessment to the European Commission, due to the substantial economic interest in most of the remaining sites. By the end of 2008 the government had included a total of 114 protected areas where birds live and breed, and 228 zones where the local flora and fauna need to be protected, thus covering 33.9% of the country's territory.

With respect to implementation of the EU Emission Trading Scheme (ETS), principal requirements have already been embodied in the Environmental Protection Act, which was amended for this purpose on 27 September 2005. In October 2007 Bulgaria failed to defend its position on CO₂ emission quotas and got 37% less than requested. The Bulgarian quota until 2012 is 42.3 million tons per year. At the end of 2008 the government produced, with some delay, a national plan for the distribution of quotas among enterprises responsible for CO₂ emissions. Trade in quotas has not yet started, because caps for 2007 were set to match exactly the quantities emitted, but activity cannot be postponed any longer. In 2008, Bulgaria joined the coalition of Central and Eastern Europe (CEE) countries led by Poland demanding longer transition periods and exceptions from the ETS.

It remains to be seen whether the trade in quotas will generate enough incentives for the overall reduction of CO₂ emissions in Bulgaria by 2012.

Investment in primary, secondary and tertiary education is below the EU average. Based on Eurostat data from 2005, an average of 5% of GDP (between 3% and 8%) is spent by EU governments on education.

Education policy /
R&D

The Bulgarian National Innovation System is still at the initial stage of its development and displays significant shortcomings compared with the best European practices. Bulgaria lags behind in almost all aspects of innovation performance compared with other member states. According to the latest European Innovation Scoreboard (EIS) in 2007, public R&D expenditure is 0.38% of GDP, while the EU-27 average is 0.65%. Business R&D expenditure in Bulgaria is only 0.11% of GDP, while the EU-27 average is 1.17%. Bulgaria still does not have a national R&D intensity goal. There are only baseline projections for increase of the R&D budget under business-as-usual assumptions, but no real targets have been set. In general, Bulgaria lacks genuine commitment to the development of the National Innovation System, and this may compromise the country's long-term growth and development prospects.

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate. Living standards remain low for the majority of the population. Despite strong economic growth and the high educational level of the population, the Bulgarian people are generally very pessimistic regarding their individual and national socioeconomic development. Endemic corruption at various levels still hampers the political leadership's governance capacity. It is still difficult to overcome the gap between strong macroeconomic performance and the deterioration of the standard of living for a majority of Bulgarians.

Structural
constraints

The recent break in the supplies of gas, which occurred at the beginning of January 2009 and lasted for almost 3 weeks, showed that Bulgaria is almost fully dependent on Russian gas and has practically no alternatives. The interrupted gas supplies almost shut down the economy.

Bulgaria has a traditionally strong NGO sector, which played an important role as driver of reform in the pre-accession period. Think tanks have operated entirely by means of foreign donor support (predominantly from the United States) and have attracted the intellectual capacity of many high-profile policy and economic analyst and practitioners. However, civil society actors have emerged predominantly as a result of top-to-bottom development and had to adapt their strategies according to the agenda of foreign donors. With the phasing-out of donor support and approaching EU membership, NGOs had to seriously reconsider their strategies or cease to exist. Nevertheless, statistic data reveals that the number of registered NGOs increased more than double in the period between 2003 and 2008, while analysis on their activity suggests that no more than 9% of those 26,696 registered NGOs are active and viable. Generally, traditional NGOs have faced a loss of credibility.

Civil society
traditions

Interethnic relations continue to be present in the Bulgarian political debate and in the media. The nationalist party Ataka has gained even more strength in the last years after it gained parliamentary representation in the parliamentary elections of 2005. According to current forecasts, Ataka is expected to continue in parliament with even more seats after the forthcoming parliamentary election in the summer of 2009. Citizens for the European Development of Bulgaria (GERB), the party of

Conflict intensity

Sofia's current mayor, Boyko Borisov, has also exploited nationalist rhetoric. Mr. Borisov himself has mentioned in public that the forceful change of the names of the Turkish population carried out in the 1980s, the so-called "revival process" was a policy "right in its purpose but wrong in the methods." Later, after having been censured by the president and prime minister for inciting ethnic tension, Borisov himself explained that he was not advocating the revival process. The suicide of MRF leader Ahmed Dogan's chief of staff triggered a new wave of criticism and accusations of undemocratic practices and corruption in the party. Ethnopolitical mobilization has so far not significantly affected the relations between ethnic Bulgarians and ethnic Turks or Muslims in society. These relations continue to be characterized by inter-ethnic exchange and relative tolerance.

II. Management Performance

14 | Steering Capability

The reform agenda in Bulgaria has often been driven by external agencies. In the 1990s this was the IMF, which was gradually replaced by the EU, which began playing a very strong role in setting the reform agenda during Bulgaria's run-up to full EU membership in January 2007. Although some expected Bulgaria's political elite to emancipate itself from the influence of the EU Commission after Bulgaria had become a member state, this did not occur. Indeed, the Commission's reports grew increasingly critical and outspoken after January 2007. This has created incentives for members of the political elite, including the president and some ministers, to question the EU Commission's authority. But the EU and its institutions continued to enjoy higher public support and approval than the local political elite, which provided the EU Commission continued strong political leverage. Governments have overall failed to address long-term, structural issues in areas where the EU has little competence – welfare, health care, and education policies. This has had a lasting impact on the growth of productivity and the overall adaptation of Bulgarian society and public authorities to the challenges of Europeanization and globalization.

Prioritization

Throughout the period under review, the quality of the legislative process remained generally low. The hasty incorporation of EU rules into national legislation did not always lead to improved regulation, as several pieces of legislation were poorly matched, inefficiently implemented or bore the mark of special interests. For example, at the end of 2008 the parliament adopted a new law on the conflict of interest. The law required that everybody holding a public office should submit a

Implementation

special declaration that he is not in a conflict of interest situation. According to the law, a conflict of interest arises when a person holding a public office is enabled to obtain a private benefit which prevents her from performing in an impartial and objective way her public duties. Only two months after being adopted, the law was deemed too restrictive and some of the rules had to be relaxed.

The ability of state institutions to effectively enforce the rule of law is still limited. Opinion polls suggest that 61% of Bulgarians consider that since accession to the EU, the work of police has not improved. The number of unsolved contract killings over the last ten years (150 according to the media and 78 according to the Minister of Interior) is much higher than the number of cases in which perpetrators have been brought to court. There have been several shootings during the period under review that have not been successfully prosecuted. Overall, there has been almost no progress in the investigation, prosecution and trial of cases related to organized crime.

Policies in Bulgaria are changed at a very fast pace, but the same mistakes and failures are repeated over and over again. Apparently bold policy innovation is due less to a genuine learning process than to an erratic trial and error approach. The concept of evidence-based policy remains rather weak and overall governance has deteriorated in the last two years despite strong EU pressure to improve. The practice of impact assessment as part of the legislative process is very new and hasn't become the norm.

Policy learning

15 | Resource Efficiency

The administration's poor performance continued after Bulgaria's EU accession. Administrative reform continues to be a key challenge. Past efforts targeted reducing the number of the civil servants, but little was done to curb corruption and improve performance. Analysts and think tanks such as the Center for the Study of Democracy have pointed to the fact that political corruption is growing. One such example is the use of public procurement to support companies close to the ruling parties, which then sponsor political parties beyond election periods. Some analysts have reasonably called these kinds of corrupt practices a "political investment."

Efficient use of assets

Bulgaria has been following a decentralization strategy developed in 2006. The Council of Ministers in July 2006 established a Council for Decentralization, which is in charge of coordinating implementation of the decentralization strategy. The strategy aims at the accelerated transfer of powers and resources from the bodies of state authority to the municipalities in order to reinforce local self-government. The package of measures includes an increase in the revenue base of municipalities and an extension of local bodies' capacity for and responsibility in formulating and implementing municipal policies. Mid-level government constitutes one of the key

issues in Bulgarian regional development. The issue is addressed in the Strategy for Decentralization, which states that “sector policies at the district level are not coordinated” and “the functions of the regional governors are unclearly formulated and often contradictory.” In the long run, Bulgaria will have to consider changing its administrative and territorial structures at the NUTS III level and introducing elected authorities at the level of its 28 districts. In Bulgaria no planning powers can be devolved effectively to districts because district authorities are appointed by the central government and not elected. Their legitimacy comes from the government. Municipal administrative capacity, especially in smaller municipalities, needs further improvement, especially in the context of absorbing EU funds.

The current Bulgarian government is a coalition of three parties with different political backgrounds. Prime Minister Sergei Stanishev’s party, the Bulgarian Socialist Party (BSP), is the leading party in the coalition. The coalition also includes the center-right party of the former king, Simeon Saxe-Cobourg-Gotha, and the Movement for Rights and Freedoms (MRF), both of which are members of the Liberal International. The tripartite ruling coalition of BSP, NMSII and MRF has enjoyed a comfortable majority in parliament with initially 169 seats in the 240 seat assembly, despite the fact that 18 NMSII deputies left the party’s caucus. The government was designed as a huge compromise with the pre-election agendas of the constituting parties. There are more conflicting objectives than in any of the previous governments. To achieve close coordination within government, each of the three parties has delegated deputy ministers to ministries headed by ministers from the other two parties. But de facto intransparent decisions are taken outside the cabinet by a so-called Coalition Council that includes the leaders of the three coalition parties.

Policy
coordination

In the 1990s Bulgaria had a bipolar party model with the socialists (ex-communists) and the new democrats opposing each other, while the MRF served as a balancing weight. Since the return of the former king in the new century, this bi-polar model has been broken and new, powerful political leaders and parties have begun to emerge. Until very recently, Bulgaria has not had any historical experience with complex coalitions. The lack of established practices for this form of political compromise has negatively affected coordination mechanisms.

During the period under review, the cabinet was reshuffled twice. Allegations of corruption involving former economy and energy minister Rumen Ovcharov led to a slight reshuffling of the cabinet in 2007. In April 2008, Prime Minister Sergei Stanishev replaced four ministers and introduced a deputy premier with oversight powers over EU aid.

The Bulgarian government has demonstrated little success in fighting corruption. Major integrity mechanisms have been introduced, but it remains uncertain as to whether the government’s institutions are properly staffed and processes effectively

Anti-corruption
policy

managed. Since 2007, the Council of Ministers has been constantly approving work-schedules of urgent measures and actions aimed at overcoming the faults identified by the European Union. However, the bodies empowered to fight corruption do not seem to be embedded within a framework with clear roles, responsibilities and accountability chains.

In April 2008 the government adopted the 2008 Action Plan to the strategy established for Transparent Governance and for the Prevention and Counteraction of Corruption. Since the suspension of EU pre-accession funds, a new post of deputy prime minister has been created. The person holding this post is charged with supervising the entire process of EU funds disbursement. However, a couple of months' intensive work could not make up for the persisting difficulties and insufficient capacity of Bulgaria's public administration. A State Agency for National Security (SANS) has been set up to fight corruption and organized crime, and it has exercised de facto investigative powers since the beginning of 2008. Under pressure from the European Union, the Law on Conflict of Interests has been adopted, but was later amended in an attempt to make it less restrictive by limiting the contractual relations for which a declaration on the conflict of interest is due. The EU Commission explicitly expressed disagreement with the proposed amendments and asserted the importance of treating both economic interests and interests related to political affiliation equally under the law. The Political Parties Act was also amended, with the aim of preventing financial fraud and vote-buying.

One of the biggest achievements for the reported period was the decision to close duty-free shops and petrol stations in order to diminish corruption at the borders. An assets declarations mechanism was introduced in the beginning of 2007, but it is not fully effective due to the limitations of the checking mechanism and the fact that the National Audit Office is severely understaffed. Applying sanctions does not appear to be a sufficient deterrent in prompting officials to declare their assets instead of paying a fine. In the declarations, only amounts and no individual bank accounts must be declared. Public procurement has been plagued by chronic corruption and malpractice. Some of the biggest public procurement deals in the country were negotiated directly without a tender, and companies often break down a single procurement into parts in order to avoid a tender. Recently, the law on public procurement has been amended, but legal measures alone can hardly remedy the problem of political and institutional culture in Bulgaria's public administration.

According to Transparency International's Corruption Perception Index, by 2008 Bulgaria was the most corrupt member state in the European Union. Accession did not provide an automatic remedy for corruption in Bulgaria. On the contrary, there was a significant decline in the country's marks. In 2008, Bulgaria has a score of only 3.6 points on a scale of zero to 10, down from 4.1 in 2007. This assessment is also shared by a majority of Bulgarian citizens, 72% of which consider the government's efforts in combating corruption ineffective.

16 | Consensus-Building

All major political actors agree on building democracy and a market economy. A liberal market economy and the social disparities it creates are generally accepted by the public as a reality of life, rather than a set of principles that should be balanced with values of social solidarity. The older generation usually associates the latter with the communist era. Criticism from the European Union, aimed at fostering reform, is welcomed by the public and political actors, while the government demonstrates efforts to take the necessary corrective measures. The rates of trust in the European Union are high. At the same time the ratification of the Treaty of Lisbon by the parliament on 21 March 2008 was not accompanied by lively popular debate. The discussion remained within small circles of experts.

Consensus on goals

Reformers can curb veto powers, such as clientelistic networks, insofar as these actors are not part of the political establishment itself. Membership in the EU does not guarantee by itself sustainable democratic development. On the contrary, high standards of conditionality and the inability to meet all criteria have generated a certain anti-democratic backlash in specific segments of society. The temptation to employ populism and nationalism is common in Bulgaria, but populist messages can be disciplined through the necessities of policy-making (“EU requirements,” especially) and by attempts to emulate and join EU peer groups (e.g., the European parties).

Anti-democratic veto actors

The political leadership is generally able to depolarize conflict. Dividing lines have been drawn primarily as a result of increasing social disparities and ineffective social inclusion policies, rather than as a consequence of ethnic driven conflicts. To the extent that it does exist, Bulgarian nationalism is anti-Turkish and anti-Roma in its purposes. Nationalist framing strategies operate indirectly, by criticizing the inefficiency of anti-corruption and social inclusion policies. Such critiques are intended to create perceptions of social injustice which are, paradoxically, shared by both sides along ethnic lines.

Cleavage / conflict management

By making the right to vote contingent upon permanent residence, political actors representing the ethnic Bulgarian majority sought to weaken the electoral basis of MRF, the party representing ethnic Turkish and other Muslim citizens of Bulgaria. Previously, large groups of Bulgarian expatriates from Turkey had visited Bulgaria on election days to participate in the voting. These expats have usually supported the MRF, which has played a pivotal role in Bulgarian politics by providing governing majorities for different major Bulgarian parties.

The Bulgarian political leadership assigns an important role to civil society actors in deliberating and determining policies. There is an enhanced transparency and publicity in the discussion and preparation of new legislation, and the regulatory

Civil society participation

infrastructure to involve NGOs in public councils on the central and local level is in place. However, consultations do not ensure that the positions of NGOs are taken into consideration. Often this constitutes paying lip service to the principle of public consultations. What also matters is who is recognized by authorities as a partner NGO. However, new grassroots movements (e.g., in environmental, civil liberties, or child protection campaigns) have improved monitoring and accountability – despite – not thanks to government practice. Civil society actors engaged in policy advocacy and monitoring are still in a process of building capacities. In Bulgaria, one can distinguish between traditional civil society organizations with expert knowledge and nascent grassroots organizations. The former enjoy little trust among the general population as they are not seen as representing the interests of social groups, and the latter claim to represent directly the interests of social groups, but lack the capacity to articulate expert positions. This situation could be described as a transition period for the third sector, whose traditional actors have to reconsider their final value as weighed against real performance.

Reconciliation continues to be an issue of evolving political and institutional culture, rather than of relevance for a broader public. For example, in February 2008 the parliament controversially debated the commencement of communist repression in Bulgaria in order to approve changes in the Law on Political and Civic Rehabilitation of Persecuted Persons. Efforts to re-open the painful discussion on the so called revival process against Bulgarian ethnic Turks for political aims are another example from 2008. The long-delayed opening of the archives of the Bulgarian state security services seemed to be the most frequently recurring reconciliation issue during the review period. The lack of political will to open these files has a long history and has severely impeded the consolidation of democracy. Selective leaking of information and blackmailing for political purposes has been common during the review period. Painful and controversial as it was, the discussion gradually turned into a banality, preparing the ground for people to voice gross generalizations and deplete social resources for a reflective dealing with the past.

Reconciliation

The committee for disclosing the documents and announcing affiliation of Bulgarian citizens to the State Security and the intelligence services of the Bulgarian National Army was elected on 5 April 2007 by the National Assembly and began work despite the many technical difficulties it faced. Bulgaria's socialist president, Georgi Parvanov, was exposed as a state security collaborator, together with 19 current members of parliament. Another twenty officials from the presidential administration, not only from Parvanov's administration, but also from the offices of his non-socialist predecessors Petar Stoyanov and Zhelyu Zhelev, as well as six out of 218 candidates in Bulgaria's first European Parliament elections were revealed to have a murky past, along with three former constitutional judges and fifteen supreme magistrates and investigators.

Several days prior to the local elections in October 2007, the committee published information that 445 of the country's municipal mayoral candidates had collaborated with the State Security before 1989. In September 2007 the committee announced that a total of 130 agents and collaborators to the communist-era intelligence services have been elected members of Bulgaria's parliaments since 1990, among them Ahmed Dogan (leader of the Movement for Rights and Freedoms), Jean Videnov (former socialist prime minister and leader of the party), and four members of parliament from the nationalist Ataka. In sum, 107 members of Bulgarian governments since 1990 have been collaborators and agents from the secret police of the former communist regime. The names included also members of the former and present Bulgarian government.

In November 2008, the committee released the names of 37 journalists from Bulgarian National Television, including a former director general, who had been listed as collaborators of the communist State Security Secret Services. Other files could not be opened since they are still classified. The collaborators' list included also journalists employed in other media. A representative survey conducted by the National Public Opinion Center in February/March 2008 revealed that 44% of the citizens asked supported the idea of disclosing the agent past of all public figures in Bulgaria, while 25% objected. Of those polled, 13% would contact the committee to see if there are any materials concerning them personally or concerning relatives of theirs. Particularly determined in their refusal to examine materials concerning themselves are those over the age of fifty.

17 | International Cooperation

The Bulgarian political leadership makes use of international assistance in its own reform policies. The government has clear aims of democratic and economic development, and there is a roadmap specifying steps to reach these aims and defining the inputs required from international partners/donors. Under the European Union's Co-operation and Verification Mechanism, Bulgaria committed itself to achieve compliance with identified benchmarks in the areas of judicial reform, and the fight against corruption and organized crime. However, during the period under review the Bulgarian leadership demonstrated insufficient progress in learning from international know-how and using European advice strategically in order to move forward with reform. For the time being, the EU Commission considers support to be more effective than sanctions and it is unlikely that it will invoke the safeguard provisions set out in the Accession Treaty. However, it is clear that the Co-operation and Verification Mechanism will be maintained for some time to come. This move is broadly welcomed in Bulgaria as well, although the freezing of pre-accession assistance has provoked harsh defensive reactions from official Bulgarian authorities. In a statement, the Bulgarian president expressed his disappointment,

Effective use of support

highlighting that Bulgaria has become a hostage of the interests of EU member states in the eve of upcoming European elections. Instead of taking the decisions expected by the European Union and most Bulgarian citizens, government representatives requested concrete reasons for suspending the funds. These reactions indicate the lack of political will and the inability of the political leadership to read between the lines of EU statements and adequately accommodate national policy in the supra-national European framework.

In 2007 – 2008 Bulgaria received significant financial and technical assistance from the European Union, but allegations of corruption and fraud severely affected the delivery of EU funds. Several EU funding programs have had to suspend or freeze activities. Bulgaria lost more than 220 million euro of pre-accession assistance. Following the EC decision of 23 July 2008 to withdraw the accreditation of the Central Finance and Contracts Unit, on 3 September 2008 grants from European Economic Area countries were also suspended.

Bulgaria recognized its need for independent, high-level expert advice and intensified its cooperation with member states and partner institutions in the European Union in the field of justice. The government also cooperated more closely with the EU's anti-fraud agency OLAF, but there have been several communication problems because of the inability of Bulgarian institutions to fulfill OLAF's standards. This is an opinion shared even by Bulgaria's prosecutor general. So far, OLAF has trained over 1,300 state employees in the specific field of detecting malfeasance in connection to EU funding and conducted several inspections of Bulgarian institutions. During 2008 several justice ministers of EU member states also visited Sofia, helping the Bulgarian institutions to overcome legal and practical problems with respect to the implementation of EU legislation. However cooperation still needs to be improved and assistance has to be used more effectively.

The Bulgarian government acts as a credible and reliable partner in the international arena. However, the country has suffered a severe decrease of confidence in its ability to act as full-fledged member of the European Union. Bulgaria is increasingly behaving as a policy-taker and as a country that necessitates mechanisms that put it under special scrutiny. It has become an infamous example in the European Union, and has prompted anticipated implications for the EU's enlargement policy. The dramatic loss of confidence, widely reflected by international media, is related to the inability of Bulgarian authorities to demonstrate concrete results in curbing high-level political corruption or in reforming the system as a whole to implement the rule of law.

Credibility

The assistance provided by the European Union during the period under review has not delivered expected results for Bulgarian citizens. There is a growing sense of frustration amongst member states who have offered support, which can be

attributed to the lack of transparency and results in their dealings with the Bulgarian administration. In June 2008, Bulgaria became the first EU member where specially developed software for control over EU funds absorption was introduced. The system is called “Lotar” and has been developed by the offices of the Regional Policy Directorate to help Bulgarian institutions receive at any time a full and realistic picture of the process of project implementation.

After the EU decision to freeze the pre-accession funds, the Bulgarian prime minister declared the measure unfair and out of touch with reality, blaming also foreign and domestic media for concentrating solely on the country’s negative while neglecting achievements and positive signs. Bulgarian authorities continuously repeated that all peer reviews undertaken have provided positive signs, with monitoring missions and checks being satisfactory. At the same time, public support for the EU grew rapidly while mistrust in the government increased to 73%.

The political leadership in Bulgaria actively and successfully builds and expands cooperative international relationships and promotes regional and international integration.

Regional
cooperation

Bulgaria relies mainly on the instruments of the European Union and the sustained U.S. involvement, including cooperation with the Black Sea region countries and participating in international cooperation activities. Bulgaria is very supportive of the EU accession of its Western Balkan neighbors and cautiously supportive of Turkey’s EU bid. Bulgaria has very good relations with Serbia and has supported the signing of an SAA with Serbia on 29 April 2008. The mainstream Bulgarian parties, despite slight differences, do not have substantially divergent views on regional cooperation. Bulgarian citizens support enlargement more than the average EU citizen, with 58% in favor of further enlargement and 20% against it.

Bulgaria had been a strong advocate of the Republic of Macedonia, although relations have often cooled so that Bulgaria’s support for Macedonia’s candidacy might not be unconditional. Bulgarian authorities have been repeatedly upset with continuing anti-Bulgarian stances in Macedonia. On balance, Bulgaria’s foreign minister has tacitly supported the Greek veto over Macedonia’s progress to NATO membership and EU accession negotiations. Bulgarian politicians have recommended to Skopje that it should strike a compromise in its dispute with Athens.

On 19 March 2008 Bulgaria became the 32nd state to formally recognize Kosovo’s independence in a joint declaration with Croatia and Hungary. There was no political and public consensus for recognition

In April 2008 Bulgaria took part in NATO’s summit in Bucharest and welcomed Croatia and Albania into the alliance while expressing its deep regret over the fact

that Macedonia was not invited. In October 2008 the Bulgarian parliament ratified the protocol for the accession of the two new NATO members. Bulgaria hosted a number of regional meetings in the spring of 2008 as part of its chairing of the Southeast Europe Cooperation Process (SEEC), including forums of Balkan defense ministers, disaster management ministers, justice and interior ministers, and heads of state and government. Following the August 2008 war in Georgia, Bulgaria proposed to host Georgian-Russian talks, but the offer was not accepted.

The Black Sea continues to be elevated to a key area of interest for Bulgaria. The country is a member of all regional cooperation initiatives. Bulgaria has also contributed through developing its own Concept on the Policy of Bulgaria in the Black Sea region as well as a Concept on Black Sea Security. From Bulgaria's point of view, the EU's Black Sea Synergy was a welcome development of greater commitment in a region of key importance to Bulgaria. However, Bulgaria has considered that the domination of the two "regional superpowers" – Turkey and Russia – promotes mainly their agendas and does not leave space for smaller states, even within an EU framework. Russia is a key factor in the development of Bulgarian policy in the Black Sea region, given the close ties between the current Bulgarian government, president and Russia as well as the close energy and business connections between the two countries. The Bulgarian government has intensified its cooperation with Russia – and above all in the energy sector – which inevitably has direct or indirect implications on foreign policy.

The period under review was marked by rather dynamic Bulgarian diplomatic activity to ensure large-scale energy projects especially with Russia and in the Caspian Sea region. This included a high-level visit by Vladimir Putin in Sofia in January 2008, which led to the signing of eight bilateral memorandums, the most important referring to joint energy projects: the contract for the designing and construction of the nuclear power plant at Belene by the Russian company Atomstroyexport; the memorandum for the construction of a transit gas pipeline through Bulgaria as part of the South Stream project; and the contract establishing the company that will design and build the Burgas-Alexandroupolis oil pipeline. In September 2008, Sergei Stanishev met with the Russian Foreign Minister Sergey Lavrov in New York. Lavrov confirmed Russia's intention to join the "Natural Gas for Europe" energy summit organized by the Bulgarian government in April 2009. According to the Bulgarian prime minister, Bulgaria and Russia had pragmatic, business-like relations, and Bulgaria was not fearful of Russian aggression or of the use of its energy resources as a political tool. Bulgarian President Georgi Parvanov focused his diplomatic activity on the issue of developing the EU-sponsored Nabucco gas transit pipeline, which aims to diversify the European Union's energy supply, and thus reduce its energy dependence on Russia. This was a key topic during his official three-day visit to Azerbaijan, and his talks with Azerbaijani President Ilham Aliyev. In December 2008, after meeting with his Turkish

counterpart Abdullah Gul in Turkey's capital Ankara, Parvanov announced Bulgaria and Turkey were ready to work together to realize the Nabucco gas pipeline project. By the beginning of 2009 however, this activity seemed unproductive in the face of the gas transit dispute between Russia and Ukraine, which revealed the absolute dependency of Bulgaria on Russia's gas supplies, as well the failure of Bulgaria to ensure alternative energy resources so far. Bulgaria's position is unclear on all these issues. During the gas crisis, Parvanov spoke in favor of South Stream as well as boosting nuclear energy. Parvanov advocated direct relations with Gazprom and even hinted at allowing Gazprom to enter the domestic market, giving it shares in the pipeline infrastructure (a point on which successive Bulgarian governments, including socialist-led ones, have been very firm in the past).

Strategic Outlook

Bulgaria faced significant difficulties within its first two years of EU membership, which were then exacerbated by the global financial crisis. Together, these factors increased the significance of politics and policy formulation addressing the vulnerability of the Bulgarian economy, the fragile social security system, and deficiencies in the implementation of the rule of law and of good financial management principles. Although the European Union has continued to exert tremendous influence on the reform process even after accession, successful democratic consolidation and the realization of a socially responsible market economy cannot be achieved without the political will of the national political leadership. Bulgaria has become an infamous example of a country insufficiently prepared for EU membership. In the medium term, Bulgaria's leadership must ensure that the country starts acting as a reliable, responsible and proactive EU member state instead of as a mere policy taker or even subject of sanctions. The experience of the first two years of membership undermined Bulgaria's potential to provide a good example, and thus help promote the integration of countries from the Western Balkans and Turkey into the European Union.

Bulgaria has to continue its process of economic restructuring, improve the basis for social inclusion and development of human capital, and make its economy more resistant to external shocks. The country's main transformation problems lie in the realm of good governance and social consolidation. The continuing transformation process should focus on the following key elements:

- Strengthening political consensus and enhancing the capabilities of political elite. After Bulgaria joined the European Union, the country's political elite was often strongly criticized by the EU Commission. There is an apparent temptation to blame the EU of using double standards, thus generating euroscepticism. In the new context of full EU membership, the practices of political corruption, which seem to have been tolerated before accession, are no longer tolerable. Fortunately, Bulgarian society is showing a much healthier attitude toward external pressure, and EU criticisms enjoy strong public support. The Bulgarian political elite is fighting for its survival in the middle of a huge legitimacy crisis, which will become apparent in the mid-2009 general elections.
- Strengthening the rule of law and law enforcement. The EU Commission's most recent monitoring report, from February 2009, underlines that reform of the judiciary and law enforcement structures is an important and necessary step. It concludes that only tentative steps have been taken as yet, and that there has been no critical mass of effective sentences imposed on corrupt officials or underworld bosses. The test of progress will be substantial results in investigating, prosecuting and judging cases of high-level corruption and organized crime.
- Building a knowledge-based society. Public spending on education and R&D should be increased decisively in parallel with measures to renovate curricula and design a true long-term

policy for human resource improvement and innovation. Other long-term priorities such as welfare and health reforms should be addressed.

- **Increasing solidarity in Bulgarian society.** Bulgaria needs to put more focus on equitable access for all societal groups to the benefits of economic growth and EU membership. The country needs to strengthen its social safety nets and invest more to secure equity in education and health-care provision.