CRITICAL JUNCTURE?
Bulgaria after the snap poll in October 2014

Change and continuity in politics, foreign policy, and the economy after the 2014 elections

St Antony’s College, University of Oxford
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Conference Programme

10:00 - 10:30
Registration

10:30 – 11:00
Convening Conference Remarks and Keynote Address
Ms Stanislava Topouzova, Ms Rumena Filipova, Mr Ivo Gruev, Mr Ivaylo Iaydjiev, and Dr Othon Anastasakis

11:00 – 12:30
Panel 1: Bulgaria in the International System: Divided Loyalties?
Chair: Ms Rumena Filipova, University of Oxford
Mr Kyril Drezov (Keele University), Bulgaria: Foreign policy challenges and internal divides
Dr Dimitar Bechev (London School of Economics), Bulgaria’s ‘downloading’ of policies from the EU and prospects for ‘uploading’ its national interests
Dr Diana Bozhilova (King’s College London; New College of the Humanities), Bulgarian foreign policy and energy security

12:30 – 13:30
Lunch break at the European Studies Centre

13:30 – 15:00
Panel 2: Domestic Politics, Rule of Law, and Legal Reform
Chair: Mr Ivo Gruev, University of Oxford
Dr Dimitar Bechev (London School of Economics), Domestic political landscape after the 2014 elections: The way forward
Dr James Dawson (University College London), Measuring democratisation and liberalism: The Bulgarian and Serbian ‘public spheres’ compared
Dr Gergana Yankova-Dimova (University of Cambridge), Democratisation and ‘judicialisation’: Bulgaria as an extra-electoral democracy
Ms Maria Spirova (University of Oxford), Protest culture, public debate, and the media: The role of civil society

15:00 – 15:15
Coffee Break
15:15 – 17:00  
Panel 3: Speeding-Up Convergence: Key Economic Reforms and Prospects for Change  
Chair: Mr Ivaylo Iaydjiev, University of Oxford  
Ms Illyana Tsanova (Former Deputy Prime Minister of Bulgaria for EU Funds Management), *EU Funds for 2014-2020: The promise and perils of conditionality*  

Mr Julian Popov (European Climate Foundation and former Minister of Environment of Bulgaria), *The EU’s Energy Union and its impact on South Stream*  

Ms Maria Mihaleva (Schoenherr), *Bulgaria’s energy sector: The costs of policy incoherence*  

17:00 – Closing Remarks
Editors

**Dr Othon Anastasakis**, Director of the European Studies Centre, University of Oxford

**Rumena Filipova**, DPhil candidate in International Relations, University of Oxford

**Stanislava Topouzova**, DPhil candidate in Law, University of Oxford

**Ivaylo Iaydjiev**, DPhil candidate in Public Policy, University of Oxford

**Ivo Gruev**, MJur candidate in Law, University of Oxford

**Jonathan Scheele**, Research Associate at South East European Studies at Oxford, University of Oxford
Introduction

Thank you for your interest in the Oxford-Bulgaria conference held on Wednesday, 3 December 2014, with the organisational and financial support of South East European Studies (SEESOX) at the European Studies Centre (ESC), University of Oxford, and St. Antony's College, University of Oxford.

The conference, titled ‘Critical Juncture? Bulgaria after the Snap Poll in October 2014: Change and Continuity in Foreign Policy, Domestic Politics, and the Economy’, was held in the aftermath of the Bulgarian parliamentary elections on 5 October 2014 when the country faced a period of much needed reflection on the future of reforms in key policy areas. In this critical moment, the conference provided a platform for academics and practitioners to engage in substantive debates and to consider policy prescriptions regarding the international relations, domestic politics, and economics of Bulgaria.

The conference included three specialised panels – each presented and analysed in this booklet. The first panel, ‘Bulgaria in the International System: Divided Loyalties?’, identified the core challenges ahead of Bulgarian foreign policy in an increasingly volatile regional and international context. Questions why Bulgaria remains overwhelmingly passive in its external behaviour and why the country finds it difficult to devise a balanced foreign policy regarding the EU and Russia received special attention. The second panel, ‘Domestic Politics, Rule of Law, and Legal Reform’, focused on the likely political consequences of the parliamentary elections, the impact of the protest movements, and the possibilities for the enhancement of the rule of law. The last conference panel, ‘Speeding Up Convergence: Key Economic Reforms and Prospects for Change’, examined the challenges of economic reforms, the management of European Union funds in the post-accession period, and the development of policy reforms in the energy sector.

As you will discover in this booklet, whether it is a matter of tackling dilemmas in foreign policy, addressing an increasingly fragmented political system, or efficiently utilising European Union cohesion funds, these issues require deep and sustained analysis and attention.

Sincerely,

The Organising Committee: Rumena Filipova, Stacy Topouzova, Ivaylo Iaydjiev, and Ivo Gruev
Bulgaria in the International System: Divided Loyalties?
Rumena Filipova, University of Oxford

The first panel of the conference aimed to identify some of the main challenges and tasks ahead of Bulgarian foreign policy in what is now an increasingly volatile regional and international context (above all, the Russia-West conflict, Turkey’s growing assertiveness, and the on-going process of European integration in the Western Balkans). The discussion of these concrete issues and challenges of contemporary international relations and the new Bulgarian government’s possible responses was informed by analyses and potential solutions to two general problems that characterise Bulgarian foreign policy – namely, its relative ‘passivity’, and the country’s divided loyalties and uncertain stance between East and West.

First, as regards passivity, Bulgaria has exhibited a historically continuous tendency to submit to foreign powers. The state’s internal policy debates have been overwhelmingly dominated by discussions of domestic issues and developments, for the most part neglecting the country’s external behaviour. Such relegation of foreign policy to secondary importance and preference for passivity – significantly influenced by the historically conditioned belief that as a small power Bulgaria cannot pursue active and independent foreign-policy positions and will always remain at the mercy of external factors – will certainly also characterise the ideational and policy landscape of the new government. Indeed, the vexing question that this government will have to address is whether being a small state always necessarily reduces the capacity for independent action or whether there are options and opportunities that a small state can use to further its national interests.

The International Relations Discipline proposes one important answer to this question: territorial and population size and military and economic capabilities may not always be a determining factor of a state’s level of influence in international politics. Instead, institutionalised cooperation, international law, small state ‘norm entrepreneurship’ through attractive ideas, powerful argumentation, effective persuasion as well as strong internal state capacity, economic prosperity, and qualified administrative personnel in small states can dilute the influence of great powers and constrain their behaviour through binding norms and institutions. Thus, the literature shows the theoretical and empirical possibilities that exist for small countries to act in an independent way. The issue then remains to establish whether the new government will be able to avail itself of such opportunities.

Second, Bulgaria’s divided loyalties between East and West also figured prominently in panel presentations and discussions. On the one hand, Bulgaria’s national identity is strongly linked with Russia through cultural-historical factors including ethnic, linguistic, and religious similarity, and through Russia’s role in restoring Bulgarian statehood in the 19th century. On the other hand, Bulgaria’s national consciousness has also been strongly influenced by Western Europe – as an aspiration and ideal representing a superior form of political, economic, and social organisation to be imitated and attained.
Such identity issues matter in a ‘practical way’ because they do find expression in Bulgaria’s external relations. In particular, ambiguous attitudes have an important impact on the political elite and its conduct of foreign policy. Despite the overall Euro-Atlantic strategic framework provided by Bulgaria’s membership in the EU and NATO, there is no elite consensus on how close to get to Russia (between the eight parties in the new Parliament, there are significant differences, from the strongly nationalist and pro-Russian Ataka to the decidedly pro-European and pro-Atlantic Reformist Bloc). Bulgaria’s ambiguous attitudes and behaviour also affect the expectations, perceptions, and policies of the West and Russia. On the one hand, the West remains uncertain as to the sincerity and depth of Bulgaria’s commitment to Euro-Atlanticism, while Russia entertains expectations of loyalty based on historical gratitude and cultural similarity – when such loyalty is not forthcoming, disappointment (and punishment) usually follow. Overall, the perceptions and expectations of Bulgaria’s main external partners take on added significance in periods of enhanced competition between Russia and the West, when countries need to take a firmer stance in both support and opposition.

The panel’s distinguished speakers tackled how these issues can be addressed.

**Bulgaria: Foreign policy challenges and internal divides**

The first panellist, Mr Kyril Drezov (Keele University), began by questioning the perception that Bulgaria is a small country and argued that in terms of population and territory Bulgaria should be classed together with mid-ranking EU countries like Hungary and the Czech Republic, rather than with genuinely small countries like Malta and Luxembourg. He then traced five challenges to Bulgaria’s foreign policies and two domestic political divides that have a direct impact on the country’s external behaviour. The challenges that he examined included the crisis in Ukraine, the unstable situation in Moldova, control over the Turkish border, instability in the Former Yugoslav Republic of Macedonia and Serbia’s (non)progression towards EU membership. Indeed, two of those challenges – related to Ukraine and Moldova – have to do with deeply divided societies whose central importance in the Russia-West competition will continue to generate instability in the foreseeable future. This would force Bulgarian governments to devise appropriate policies with regard to the significant Bulgarian Diasporas in both Ukraine (around 250,000 people) and Moldova (around 100,000). Furthermore, the Ukrainian crisis has knock-on effects on other issues; for example, South Stream would have been discussed in very different ways had the Ukraine crisis not occurred. It might have been debated on more strictly economic (rather than political) merits and would probably not have been cancelled. The situation in another deeply divided society, that of Macedonia, can escalate further and lead to instability in the Balkans, posing additional dilemmas to Bulgarian foreign policy (which has already demonstrated the readiness to get tougher on Macedonia).

The challenge related to control over the Turkish border, Mr Drezov argued, is a broader issue concerning (1) the export of instability to Bulgaria from the Middle East through Turkey and further east up to Afghanistan and (2) the arrival of refugees and economic migrants trying to find their way to Western Europe. The speaker
emphasised that the issue at the Turkish border is not one of refugees (as Bulgaria is not the ‘first safe country’ in terms of the 1951 Geneva Convention), but rather of economic migrants that pay thousands of GB pounds to criminal gangs to be smuggled into the EU. Turkey is exacerbating the situation by its persistent refusal to sign readmission agreements with EU countries.

The final challenge is that of Serbia’s current difficult progression towards EU membership. Serbia’s membership is absolutely vital for Bulgaria given that the quickest routes to the centre of Europe go through Serbia (which is especially important for trade relations). The speaker argued that as long as Serbia is not an EU member, Bulgaria will remain semi-isolated in the EU.

Furthermore, Mr Drezov alerted the audience to the possibility of Bulgaria becoming another deeply divided society, with only part of the population committed to the EU and NATO and another part committed to Russia and the Eurasian Union. This may sound far-fetched looking at Bulgarian politics at the moment, Mr Drezov argued, but an examination of the reactions of the Bulgarian parties at Putin’s declared abandonment of the South Stream project clearly demonstrates divisions in society and within the coalition itself. Some were happy to be relieved of South Stream as a corruption-generator whilst others played the blame-game. Taking a more farsighted view, two debates have as yet to occur within Bulgaria’s political class and within Bulgarian society in general: first, an open and honest debate about Bulgarian-Russian relations and the Soviet legacy, and second, a debate about Bulgarian-Turkish relations and the Ottoman legacy. Russia and Turkey are the only two countries in Bulgaria’s immediate neighbourhood with sizeable constituencies in Bulgarian politics. It is a dangerous situation when one part of the political spectrum discusses Soviet occupation (the Reformist Bloc) and another speaks of Soviet liberation (the Bulgarian Socialist Party and The Movement for Bulgarian Revival). Equally dangerous is that some parties in Bulgaria are fixated on the indignities of Ottoman rule or a present and imminent Turkish threat (Ataka and part of the Patriotic Front), while other parties (the Movement for Rights and Freedoms and Kasim Dal’s part of the Reformist Bloc) reminisce of Ottoman times as a golden period of multiculturalism and harmony (as is the consensus in Turkey itself) and try to present Turkey’s President Recep Erdogan in a positive light. These divisions – which could be harmless irritants in a period of détente – may become deadly in an era of cold or even hot wars.

**Bulgaria’s ‘downloading’ of policies from the EU and prospects for ‘uploading’ its national interests**

The second panellist, Dr Dimitar Bechev of the London School of Economics, focused his analysis on the EU by examining its role as both an ‘anchor’ of domestic transformation and an arena into which national ideas and interests about international relations could be projected. Regarding the former aspect of the EU, Dr Bechev argued that the elites quickly learned how to talk their way into Brussels, while doing the bare minimum to reform. However, the external anchor of reforms can only be an important – not a sufficient – condition for transformation (the domestic commitment to reform is just as necessary because EU conditionality is not all-encompassing, especially in the areas of media and the judicial system). The financial
crisis since 2008 exposed the limits of the transformative impact of the Union when it is not complemented by sustained domestic commitment to reform (the faults of such insufficient commitment becoming more visible during times of scarcity) and heightened the differentiation between the core and the periphery in the EU. As a result, Bulgaria has increased rather than narrowed the gap with the European mainstream. Some of the institutional arrangements that manifest Bulgaria’s unequal status in the EU are related to its exclusion from Eurozone and Schengen membership as well as the continued verification and cooperation mechanism, which puts Bulgaria and Romania in the position of being monitored in a pre-accession mode.

In terms of the EU as a forum for policy projection, Dr Bechev argued that the country has exhibited very limited success. The initial declaration after accession in 2007 that Bulgaria would try to act as a champion of enlargement, especially in its South East European region, has not come to fruition both because of the insufficient power of example – i.e. the mixed results of reform could not persuade non-EU states of the desirability of membership – and because of a lack of a clear conception of Bulgaria’s added value in dealing with its immediate neighbourhood (Croatia’s accession to the EU can actually contribute more to European policy in the region as that country has much denser relations with the Western Balkan countries).

Dr Bechev further clarified some of the trends in Bulgaria’s relations with Turkey and Russia. Turkey represents an unending topic of discussion, being a foreign policy as well as a domestic issue of debate. The nationalist parties generally claim that the Movement for Rights and Freedoms (MRF) is very powerful in Bulgarian politics and can even be considered an extension of Ankara. However, the situation is much more complicated: the MRF’s connection with Erdogan has been difficult and it is, after all, a Bulgarian party with many Bulgarian members and non-ethnic clientele (but a Turkish ethnic voting community). In terms of economics, Turkey represents an economic opportunity for Bulgaria (it is a neighbouring country growing at high rates) and is important for the diversification of gas supplies. A positive development in bilateral relations is the establishment of a high-level cooperation council.

As far as Russia is concerned, Dr Bechev took issue with Mr Drezov’s claims, himself arguing that the divide in Bulgarian politics between supporters of the West and supporters of Russia is far from a chasm. Electoral outcomes show that parties which campaigned on an explicitly pro- or anti-Russian platform did not win that many votes; instead, economic issues turned out to be more important for the average voter. Moreover, the Bulgarian centre-left and centre-right share a deeply pragmatic attitude towards Russia – it is not about emotions, but about economic and rent-seeking opportunities. It was, after all, the centre-right (Citizens for the European Development of Bulgaria [GERB]) that signed up for the South Stream pact. Then the next Bulgarian Socialist Party (BSP)-led government was ready to confront Brussels and push forward with South Stream. Unlike many other member states, Bulgaria went further in setting up a joint company, approving a budget for this company, making financial commitments, and taking a loan from Gazprom. The explanation has little to do with geo-strategy; it was the prospect of a huge public project worth 3.5 billion euros – nearly 10% of the GDP – and the rents it redistributes to party clients.
It is thus useful to examine not simply structural factors but also domestic politics and vested interests in the attempt to account for Bulgaria’s foreign policy choices.

**Bulgarian foreign policy and energy security**

The third panel speaker, Dr Diana Bozhilova of the New College of the Humanities, focused on the opportunities and challenges in Bulgarian foreign policy with regard to energy security. The departure point of her analysis was an understanding of the geopolitical realities of energy dependency in South East Europe. These can be differentiated into two sets of factors: (1) national (statism) and (2) supranational (interdependence). The national aspect is linked to the significant dependence of Bulgaria on non-diversified imports of fossil fuels from the Russian Federation, which constitute over 90% of total imports. The ability to diversify endogenously exists through renewable sources and shale gas exploration. However, both technologies are costly and lack social licensing in many instances. Furthermore, their sustainability is linked to endogenous growth models dependent on equity accrued through inward foreign direct investment (FDI) flows. However, FDI experienced a sharp reduction during the global economic downturn, with signs of only partial recovery, whilst overall, Bulgaria remains a domestic demand-driven economy and the poorest member of the European Union.

The supranational aspect is linked to cumulative EU energy dependence on Russian fossil fuel imports. However, this dependence is highly differentiated across the EU member states. The average level of import dependency (79.1%) and the average share of Russian gas consumption (53.5%) for Central and South East Europe (SEE) are both significantly higher than the EU average. Further enlargements to the Western Balkans will likely increase EU energy volatility. Thus, when examining the importance of gas transit through Ukraine, it is misleading to frame the quandary in terms of EU-28 security. Rather, it is an issue for a specific geographical part of the Union. The challenges ahead of the EU in seeking a common response both to this geopolitical constellation and the lack of a common supranational energy security and foreign policy tend to translate into a series of convoluted responses. Supranationalism in the EU advances incrementally and may never do so in the area of foreign and energy security policy, given the current divergent positions amongst the member states. SEE is thus trapped in an indefinite ‘waiting room’ in the present scenario. Whilst Germany was successful in advancing an exemption from the European Commission from the Third Energy Package directive in order to operate North Stream and, therefore, ensure the security of direct energy supplies from Russia, irrespective of the geopolitical factors in its vicinity, the reverse of this argument was advanced by the Commission in order to prevent the completion of the South Stream pipeline which would have provided similar energy security of supply to SEE. In essence, this results not only in a normative double standard with regard to Russia within the EU-Russia bilateral partnership, but critically also in a *de facto* double standard vis-à-vis the SEE states, the most energy dependent region in Europe entitled to least energy security.

How can Bulgaria and SEE navigate this complex picture of national and supranational energy dependencies? Dr Bozhilova highlighted the importance of pursuing a proactive, rather than a reactive, national foreign policy. She also suggested that any
Bulgarian government ought to focus its attentions on understanding both renewable energy and shale gas technology costs, their environmental viability and social licensing, in order to find the most feasible sources for energy diversification. Geopolitically, Bulgaria ought to take stock of its energy security progress over time. A decade ago, Bulgaria, Greece, and Turkey engaged in a contest, each vying to become an energy hub for SEE. At that time, Bulgaria and Greece, because of their rapid economic expansion, were best placed to achieve this goal. Today, this picture has changed drastically. Turkey has emerged as the clear leader, capitalising on its close economic ties with Russia and the Middle East, boasting the most diversified fossil fuel routes in SEE. Therefore, Turkey’s international standing and relevance have been elevated, whilst that of the remainder of the SEE states has declined.

Finally, Dr Bozhilova cited Professor Lawrence Krauss, who had claimed that although everything in the discipline of politics and international relations is all good and well, everything in the economy starts with the light bulb. She added that politics can certainly aid in national and supranational foreign policy, providing it is used with acumen, in order to keep the light bulbs switched on.

Questions and discussion

An important issue that was debated during the question and answer session concerned the extent to which foreign policy within the EU should be left to individual member-states, or whether the Commission, and other EU institutions, should be empowered to have a supranational role – and how Bulgaria can benefit in either situation, especially in terms of energy security. A stimulating suggestion held that it may not be feasible to uphold the notion that it is only good for Europe when there is commonality, homogeneity, and one voice of agreement. Instead, it was argued that one needs to think of European foreign policy as the extent to which, and the conditions under which, the EU benefits from the diversity of its member states. In this case, the question that has to be asked is how Bulgaria’s specific history and geopolitical situation could potentially benefit the EU. The answer to this question lies in Bulgaria’s uniquely close ties with both Russia and Turkey as well as the parallels and distinctions that can be made between Poland and Bulgaria. Poland is often considered the ‘bad cop’ and Germany the ‘good cop’ vis-à-vis Russia, but because of Bulgaria’s history, it can internally balance Poland in trying to advance positively the EU’s relations with Russia.

Furthermore, a conference participant suggested a hypothesis concerning the relationship between the level of democratisation and an activeness/passiveness of foreign policy. In particular, Bulgaria’s role as a ‘good and passive citizen’ in the international community may be closely linked to the lack of progress in democratisation; if Bulgaria was a strong democracy, unafraid of how foreign criticism would fare at home, then it would be in a position to say ‘no’ to Germany and Brussels.

Finally, it was speculated that Bulgaria might become a net exporter of energy again if it keeps developing its solar energy capacity, since a recent study of the UNDP found that Bulgaria holds very promising potential for this kind of renewable energy.
Conclusion

Overall, the panel made a very important – not to mention much needed and urgent – intellectual contribution to the discussion of the problems and opportunities for Bulgarian foreign policy. The EU, Russia, and Turkey hold pride of place as major reference points in Bulgaria’s external relations. However, the panellists recommended that Bulgaria overcome the reactiveness and passivity that characterise its dealings with the outside world to achieve maximum results and benefits from its relationships with these actors. This is both necessary and possible (as the theoretical and empirical International Relations literature demonstrates), albeit difficult to attain. Panel presentations and discussions showed that Bulgaria’s effective utilisation of foreign policy options available to small powers is not entirely achievable in the immediate term because of missed past opportunities, lack of sustained attention to devising a sound foreign policy framework, insufficient policy and administrative continuity (and even power since the Foreign Ministry lacks policymaking clout), and a historically-conditioned mind-set according to which Bulgaria remains at the mercy of external forces. Thus, a more active and independent foreign policy will remain a work in progress that the new government would be well advised to champion. Moreover, if Bulgaria wants to benefit from its relationships with Russia and Turkey, it needs to hold an honest public debate about both historical memory and pragmatic goals and expectations, i.e. what foreign-policy options are foreclosed by the influence of the past and the extent to which pragmatism can open up new arenas of cooperation.
Domestic Politics, Rule of Law, and Legal Reform
Ivo Gruvev, University of Oxford

The second panel of the conference addressed the domestic political situation of Bulgaria in light of the mandate of the newly formed government following parliamentary elections in 2014. The elections were preceded by a difficult period for Bulgarian politics. This period began on 20 February 2013, when the minority government, led by centre-right GERB (Citizens for European Development of Bulgaria), resigned under the pressure of nationwide protests, triggered by a sudden and allegedly lobbyist-backed rise in electricity prices. A caretaker government was formed and followed by the highly contested government of Prime Minister Plamen Oresharski, a coalition between the socialist BSP (Bulgarian Socialist Party) and the ethnic Turkish party MRF (Movement for Rights and Freedoms). Only a couple of weeks into its mandate, a dubious appointment of alleged oligarch and media mogul Delyan Peevski as Chief of the National Security State Agency triggered an unprecedented wave of unrest. After a year of the longest-running consecutive protests in the country (and in the EU), the Oresharski government resigned, the President appointed another caretaker cabinet, and new parliamentary elections were scheduled for 5 October 2014.

At the 2014 parliamentary elections, GERB garnered the highest number of parliamentary seats (84), though with considerably less support than it had received in previous elections – 2009 (116) and 2013 (97). With waning public and political support, GERB thus could not form a majority government and instead entered into a coalition government headed by the party founder and leader Boiko Borisov and backed by the Reformist Bloc (a centre-right electoral alliance consisting mainly of parties affiliated with the UDF and NDSV), the ABV (Alternative for Bulgarian Revival), and the Patriotic Front (a new nationalist electoral alliance).

With regard to the future of the Bulgarian Socialist Party, the separation of a considerable faction (in the form of the newly established ABV) from the overarching socialist coalition of the BSP must be noted. Considered by some a strategic move by the BSP to secure a platform for dialogue between the opposed socialist forces and GERB, the formation of ABV seems to have considerably weakened BSP, cutting it off from some of BSP’s most influential leaders like former President of Bulgaria, Georgi Parvanov. ABV and GERB managed to agree on crucial points, which resulted in ABV’s parliamentary support for the new government and helped the new party secure a Minister, Ivaylo Kalfin, in the Borisov cabinet. Such a scenario of co-operation between GERB and BSP would have been hardly imaginable in the light of their long-standing political rivalry.

Strikingly, the MRF is currently experiencing a serious decline as well. It is the first time since 2005 that the party is not part of the ruling coalition (except for the mandate of the first Borisov cabinet in 2009). There are strong civic sentiments against the party related to its link to the controversial appointment of Delyan Peevski, an MRF member and MP, as chief of the National State Security Agency. Throughout its history, the
party has often been challenged for election fraud and its alleged relationship to the grey economy sector and oligarchic structures.

The question of the future of the Reformist Bloc is also interesting; it could be considered as an attempt to counter the Balkanisation of the democratic centre-right forces, which dominated the political landscape in the 1990s. The future development of the different nationalist movements that have emerged in Bulgaria over the past decade should also be followed with interest. Although the results of the last elections reflected a serious decline in support for the far-right nationalist party Attack, the development of the more moderate, but still overtly nationalist Patriotic Front, which made its way into the Parliament and supports the Borisov cabinet, deserves closer attention.

These developments take place against a background of increased civil society activity and citizens’ movements in Bulgaria. Triggered by unprecedented public unrest in 2013-14, a protest network was established, marked by strong participation of the intellectual elite, liberal campaigns, and marches against oligarchy and plutocracy and combatting pressing social issues such as xenophobia, homophobia, and racism.

In the aftermath of the 2014 parliamentary elections, leading to the fifth government in Bulgaria in the last two years, the country finds itself confronted by changing political, legal, and social landscapes. The newly formed government faces a set of particularly challenging domestic issues, including: navigating a precarious domestic political context, strengthening and vibrancy of civil society movements, increasing salience of public issues, and detrimental features of ‘extra-electoral’ democracy. Against this set of domestic challenges, experts in the second panel analysed the present and the future of Bulgarian internal politics and public sphere.

**Domestic political landscape after the 2014 elections: The way forward**

Against this background, Dr Dimitar Bechev (London School of Economics) surveyed the main political actors in Bulgarian domestic politics, focusing mainly on GERB, the Bulgarian Socialist Party, and the MRF. Despite its stance in a precarious ruling coalition, Dr Bechev argued, GERB has managed to position itself within the centre of the Bulgarian political sphere and to occupy a unique niche in Bulgarian politics. The speaker attributed GERB’s success to two key factors. Firstly, GERB continued to exert strong pressure on the 2013 Oresharski successor government, which appealed to a broad segment of the dissenting electorate. Secondly, over the course of five years (2009-14), GERB established a strong network of political linkages, with power concentrated at municipal and federal levels. Thus, according to Dr Bechev, GERB maintained its position as a principal actor in Bulgarian politics with its strong political ties and an image as the main opposition to the Socialist Party, BSP.

Dr Bechev argued that the future of GERB as a significant actor in Bulgarian politics will depend on the strength of its leadership, its willingness to reform, and its ability to keep the commitments it made prior to the 2014 parliamentary elections. Theoretically, one can explore two possible future trajectories of GERB. On the one
hand, it could be argued that GERB is unlikely to pursue many reforms due to a lack of domestic pressure. On the other hand, one could more optimistically argue that GERB, in a much weaker position after the 2014 elections and as a result of its alliance with the Reformist Bloc, might be forced into reforming and adhering to more progressive policies, since one of the main points in the political campaign of the Reformists is profound legal reform in the country. Under this second alternative, the agenda of the Reformist Bloc and the pressure from civil society movements, gathering importance in light of the protests, may force GERB to work toward strengthening the rule of law, reforming core sectors in Bulgarian government, and instituting structural reforms.

In contrast, GERB’s counterpart, the Socialist Party, is in a deep crisis, according to the speaker. The party has seen a drastic decline in support and has not been able to appeal successfully to younger demographics; less than 10% of their supporters are under 25 years in age. Dr Bechev posited that this centre-left force is not sustainable in Bulgaria, not only because the Socialist Party has less public support, but also because it has less support from its political partners. The MRF, for example, severed its ties with the Socialist Party and chose instead to position itself as a centrist party, one willing to strike alliances with previous opponents, including GERB.

As for the fate of the MRF, GERB may have to form a more substantial working relationship with the Movement for Rights and Freedoms. Dr Bechev argued that such a partnership would signal the consolidation of the status quo and would hamper critical reforms. While there is no strong alternative political party, there is a growing body of civil society actors that have articulated concrete demands for key reforms in Bulgaria.

**Measuring democratisation and liberalism: The Bulgarian and Serbian ‘public spheres’ compared**

Dr James Dawson (University College London) presented a comparative study of the public spheres of Bulgaria and Serbia, focusing critically on the state of liberalism in Bulgaria and stressing the role of politics, the media, and citizens’ discussions in shaping the democratic culture of the country. Dr Dawson proposed to conceptualise democratisation as both a legal-institutional project and a cultural-imaginative one that is contingent on the public sphere. According to this view, the process and trajectory of democratisation is deeply influenced by the public sphere – ‘an aggregation of sites in society through which individuals meet and discuss public matters and constitute themselves as democratic citizens in the process’. In this way, multiple publics actively participate in shaping, contesting, and negotiating the practice of democracy.

Framed within this conceptualisation of democratisation, Dr Dawson undertook a comparative study of the domestic public spheres in Bulgaria and Serbia. There is a solid basis for comparison between Bulgaria and Serbia: these neighbouring countries are both situated in the Balkans and share some historical, cultural, linguistic, and political similarities. Both are transitional democracies, recovering from authoritarian
rule. A considerable difference lies in the fact that Bulgaria, unlike Serbia, has been a member state of the EU since 2007. Should not this be considered a big advantage, positively influencing Bulgaria in its path to democratisation and liberalism? Surprisingly, he argued, the answer is no. In Bulgaria, it is common to hear advocacy concerning the concepts of the rule of law and transparency, but these ideas are typically articulated together with less liberal concerns such as ethnic exclusivism and various forms of social conservatism. On the whole, the Bulgarian public sphere lacks robust and substantive engagement in the fields of primary concern.

In Serbia, the public sphere is more active, engaged, and critical than its Bulgarian counterpart, according to Dr Dawson. He cited Cedomir Jovanovic of the Liberal Democratic Party as an example of a political figure who captures votes by being actively anti-nationalist, pro-minority, and pro-LGBT (and evidently loses votes by proposing rapid privatisation and holding strong ties to existing power moguls). In Serbia, Dr Dawson argued, intellectuals have a broader audience and citizens act as checks on the institutions. For example, his (non-elite) informants showed themselves cognisant in the institutional rationale behind the ombudsmen institutions, judicial independence, and the separation of powers. This, again, is in contrast to Bulgaria, where, in the speaker’s view, there is no single core figure or group around which more liberal, progressive platforms are articulated. This void has instead fostered a tacit public acceptance of conservative politics that dominate public discourse. Ultimately, Dr Dawson argued that the Serbian public sphere is considerably more contested and pluralist, and (at the margins) more liberal than its Bulgarian counterpart. This would suggest that the progress of states like Bulgaria in implementing liberal institutions is not a reliable measure of the strength and development of democracy.

**Democratisation and ‘judicialisation’: Bulgaria as an extra-electoral democracy**

Following Dr Dawson’s presentation, Dr Yankova-Dimova (University of Cambridge), continued the discussion of the importance of a vibrant public sphere, with a particular focus on the features of democratisation in Bulgaria. Dr Yankova-Dimova sought to situate the case study of Bulgaria within the broader academic study of the process of democratisation, particularly in reference to recent theoretical debates on ‘trust deficit’ and ‘judicialisation’. The primary question that Dr Yankova-Dimova seeks to explore in her research is what kind of democracy exists in Bulgaria today. Her principal argument is that Bulgaria has an ‘extra-electoral’ democracy, which can be conceptualised as a type of democracy that is ‘conducted beyond the sphere of electoral competition’. In this context, Dr Yankova-Dimova argued that the discourse on democratisation need not be positioned on the principle of aggregation of the public view, but on the diversification of the public will. The public has diversified, as has the range of expectations that the public holds for its government. She advanced that there are two factors that still hold significance in the democratisation literature: first, the role of the media, and second, the process of ‘judicialisation’.

The media and public discourse, Dr Yankova-Dimova continued, are important factors to consider in the discussion on democratisation because they serve as platforms
through which public claims can be articulated to broader audiences. The media provides the venues for public discussion and debate. In Bulgaria, however, the process of articulation is not nearly as straightforward or neat. As Daniel Smilov also argues, in Bulgaria, issues that emerge in the media are re-branded by politicians depending on the public discourse and public levels of trust. Thus, the process of public debate is reversed and, in effect, the broader public becomes a passive recipient.

In particular, Dr Yankova-Dimova propounded, there are at least four reasons why issues do not hold deeper resonance in the Bulgarian public sphere:

1) Intellectuals have not articulated the issues in terms that are accessible and engaging for the rest of the public. Therefore, there is no particular discourse on issues of primary concern within the country.

2) The socialist electorate is pro-Communist and is concerned principally with the past, rather than the issues. This cleavage did not develop post-materialist values because industrialisation did not take off in Bulgaria as it did in other Western countries. It is very challenging to raise the profile of issues in a country that does not hold post-materialist values.

3) The shortage of politicians and the media to address issues.

4) NGOs and other parties who conduct public opinion surveys do not emphasise the issues but focus instead on particular individuals in political parties.

Against this background, Dr Yankova-Dimova argued that Bulgaria faces the unique challenge of increasing ‘judicialisation’. During the course of her study, Dr Yankova-Dimova collected over 1,600 articles from Bulgaria that accused the government of illicit acts and explored how the allegations unfolded. She argued that there is no process of de-parliamentarisation because the legislature in parliament is the most common mechanism for investigating signals; the second most common mechanism is the judiciary. In this context, however, the parliament has become a very weak tool for checking government. Instead, what occurs in an extra-electoral democracy where demand is fragmented is an increasing process of judicialisation.

Dr Yankova-Dimova concluded that, in Bulgaria, there has been a process of judicialisation insofar as politicians view it as important to roll out the prosecutor on particular issues in order to be seen to be taking the issue seriously. She argued that while the process of turning to the prosecutor is, in reality, not likely to render any means of recourse, the public perception is that the issue has been referred to the authorities. A form of extra-electoral accountability is thus a feature of extra-electoral democracy.

Protest culture, public debate, and the media: The role of civil society

Concluding the second panel, Ms Maria Spirova, an eminent Bulgarian journalist, asserted that what can be observed in Bulgaria is the emergence of a viable public counter-narrative concerning the conduct and contours of domestic politics. Ms Spirova reflected on her own experiences of reporting on the mass public protests in 2013 and argued that more substantive public debates on statehood, the legitimacy
of power, the balance and concentration of powers, and what transpires in the political theatre, are all present in Bulgaria. While the Bulgarian political system, after the fall of the Communist regime, created a space within which people were alienated and did not feel compelled to participate in politics, the public, Ms Spirova contended, has now entered the domain of political debate and deliberation.

She posited that the 2013 protest movement and subsequent parliamentary elections in 2014 demonstrate that the core political institutions in Bulgaria have to contend with, or at the very least acknowledge, civil society demands. The protests opened up a space of opportunity for the broader public to participate in political debate in the country. In this process, the act of voting was transformed into a political stance through which citizens could articulate their discontent and protest.

The protests, spanning over a year and a half, articulated a set of important issues that had previously been largely ignored in public debate and discussion, such as transparency in political appointments, allocation of public funds, conflict between private and public interests, etc. For the first time, the issues, as conceived by the people, were brought to the forefront of political debate and the broader public in Bulgaria became engaged in political discourses and debates. This new opening-up of the media, and this level of engagement of the public, was unprecedented, argued Ms Spirova. She concluded that the presence of protest culture and civic society movements is a necessary feature of a healthy democracy. Ms Spirova went on to express the difficulty of measuring the success of a protest by searching for concrete achievements, such as the resignation of government or concrete public demands implemented by the government due to public pressure.

Indeed, if these were to be measures of success, the 2013-14 Bulgarian protests could be considered unsuccessful. The more recent protests and civil movements in Bulgaria waned considerably prior to the resignation of the Oresharski cabinet. At their peak in the summer of 2013, the government stood firm and did not show any signs of accommodating, or even listening to, the protestors’ demands. The real reason for the government’s resignation in 2014 lies much more in internal disturbances, since the protests were predominantly concluded by that time. However, Ms Spirova argued, a major achievement of civic society was its role as a necessary counterpart to political power and a moral corrective, closely scrutinising its every move and reacting to grave breaches of its promises and commitment to the populace. Especially in the post-Communist domestic landscape of Bulgaria, where politics, oligarchy, and plutocracy are widely regarded by the population as deeply intertwined, a present and active civic society, ready to take to the streets in order to defend the principles of democracy and the rule of law in the event of the state’s failure to do so, could be of crucial importance. It is a matter of fact that in the 2013-14 protests, thousands of Bulgarians displayed political consciousness, interest, and activism by streaming onto the streets for the first time since the great unrests of 1997.
Conclusion

The panel ‘Domestic Politics, Rule of Law, and Legal Reform’ examined two elements of Bulgaria’s domestic political landscape: the composition and trajectories of the three main political parties, and the impact of a group of burgeoning civil society actors. Firstly, the panellists provided an analysis of the three key actors in Bulgarian domestic politics – GERB, BSP, and MRF – and engaged in a discussion of the potential development of the new government’s mandate. Secondly, the panellists examined the rising role of civil society, citizens’ movements, and the protest network against the background of the current political context in Bulgaria. The juxtaposition of Bulgaria and Serbia showed shortcomings of liberalism in Bulgaria, despite being an EU Member State. The critical analysis of the Bulgarian public sphere also examined the role of politics, the media, and public discourse in shaping the country’s democratic culture. The complex discussion about democratisation tackled the unique challenge of increasing ‘judicialisation’ of what was labelled ‘extra-electoral democracy’ in Bulgaria. Last but not least, all speakers recognised the potency of the 2013-14 protests in shaping the current domestic situation and influencing politics, media, public discourse, and democracy in general. The panellists considered the recent revival and activism of Bulgarian civil society actors as one of the key factors that prompted the parliamentary election in 2014.

It is, however, somewhat contradictory that, despite increasing activism, the last elections in Bulgaria were accompanied by general electoral apathy, as evidenced in a turnout of 51.05%. The low voter turnout may be attributed to the fact that civil society is perceived as having had little immediate impact on the politics of the country. Low voter turnout could also be attributed to a set of broader factors, including: the lack of a new and genuine political alternative, distant and disconnected from present political parties; and distrust in the main political parties, widely regarded as corrupt and ideologically homogenous. Amidst these developments, it is unquestionable that the 2014 elections occurred amidst a turbulent time for Bulgarian politics and society. It has yet to be seen whether the new government will be able to deal with the complex set of challenges that it faces and whether civil society will secure and enhance its role as a considerable political factor and the guardian of democratic principles.
Speeding Up Convergence: Key Economic Reforms and Prospects for Change
Ivaylo Iaydjiev, University of Oxford

The year 2014 was a critical juncture not only for domestic and foreign politics in Bulgaria, but also for its economy. Bulgaria recorded economic growth of 1.5% and a slight reduction in unemployment, but that came on the heels of the collapse of its fourth-largest bank. The collapse of Cooperative Commercial Bank (KTB) amid allegations of fraud, political infighting, and potential regulatory mismanagement, has captured the headlines, but the Bulgarian financial system has ultimately proven to be resilient. However, there has been less public discussion about two other equally serious and pressing reform challenges; they were the focus of this panel.

First, improving the use and governance of EU funds is key to reinvigorating a decelerating process of convergence with European living standards. In 2013, Bulgarian incomes were still barely 46% of the EU average, the lowest level of any member state. Consequently, under the EU Cohesion Policy, Bulgaria thus has access to considerable EU cohesion funds – 6.9 billion euros in 2007-13, rising to 7.6 billion euros in 2014-20 – a sizable sum given the country’s 39.9 billion euro GDP for 2014. Their impact on Bulgaria’s economy has been substantial; a study attributed 88% of the annual economic growth of 17% in GDP in 2011 to their influence.

Despite their huge promise and sheer size, Bulgaria’s experience with EU funds has been ambiguous. First, there have been serious technical difficulties in applying for and administering these huge funds since they are disbursed and co-financed by the state, leading to low levels of use. This situation would sometimes lead to projects aimed purely at ‘absorbing’ EU funds without considerable local ownership or sustainability, and hence with limited impact. Second, the bulk of the EU funds came into Bulgaria for the first time just as the global financial crisis was kicking in, reducing other sources of foreign and public investment. Consequently, the state became a huge player in some key industries. In 2011, for example, EU funds accounted for 80% of new construction projects, while promotion and popularisation of the funds made the state the biggest source of advertising revenue for Bulgarian print media by a considerable margin.

Second, increasing imbalances, leading to a rapid escalation in the losses of key publicly owned companies, have plagued the domestic energy sector. Over the last three years there have been numerous controversies surrounding the foreign-owned companies responsible for end-user supply; the costs to the end-user of generous financial incentives for renewable energy; and the governance of the key regulatory agency and state-owned companies. While the debate over the causes raged, prices continued to soar. Exceptionally high energy bills sparked mass protests in January and February 2013, eventually leading to the government’s resignation. However, tensions continue unresolved as Bulgarians’ low average income means they are highly sensitive to any increase in what remain some of the lowest energy prices in Europe. At the same time, the government has made many pledges to various foreign and domestic investors, sometimes on unrealistic budget and forecast assumptions.
and other times on political rather than economic-efficiency grounds. This toxic mix has produced continued political involvement in regulatory affairs, leading at times to artificial suppression of energy prices (and thus the pile-up of deficits) and sudden and wild swings in the investment framework (culminating occasionally in threats to revoke the licenses of various foreign investors to operate in the country).

Simultaneously, however, Bulgarians have also found themselves in the midst of geopolitical tensions, learning the hard way how much the country’s energy security is influenced by international relations. This is particularly evident in the case of natural gas: Bulgaria imports around 89% of the gas it uses, all from Russia; this places it just after the Baltic States and Finland, which are 100% dependent on Russian gas imports. Thus, when a previous icy episode in Russian-Ukrainian relations led to the temporary interruption of Russian gas supplies through Ukrainian territory, Bulgarian households were left with little to no heating in the middle of winter in early 2009. More recently, Russia’s plans for a gas pipeline that would circumvent Ukraine and deliver gas through Bulgaria directly to the Balkans, Austria, and Italy also affected domestic politics. Russian refusal to abide by the EU’s energy regulations, citing the precedent of North Stream and the shady bidding process that gave significant construction contracts to well-connected companies, set the country on a collision course with the European Commission, particularly in the aftermath of the new Ukrainian conflict.

What economic reforms are necessary and what are the prospects for change, given their significant political implications? This is the question we posed in the third and final panel to a distinguished set of practitioners with hands-on experience of energy and EU funds policy and its implementation.

**EU Funds for 2014-2020: The promise and perils of conditionality**

The first participant was Ms Ilyana Tsanova, who has just finished her second mandate as Deputy Prime Minister for EU Funds Management in two caretaker governments, following a long career with the European Bank for Reconstruction and Development (EBRD). According to her, changes to EU cohesion policy can be a real game changer thanks to newly introduced elements of conditionality that limit politicians’ ability to avoid reform. EU funds will undoubtedly continue to play a big role since public investment is still sluggish across the EU following the financial crisis. Bulgaria is no exception; after a nine-fold fall in FDI between 2007 and 2013, public investment — basic infrastructure that is key for the economy — is financed at 80% by EU funds. The new approach from the EU, however, highlights the need for structural reforms to maximise the impact of EU funds through smart, sustainable, and inclusive growth. To this end, the EU is now introducing various forms of conditionality into its cohesion policy.

The goal of such conditionality is to shift the focus from the management of spending to its ultimate impact. Therefore, Ms Tsanova explained, in order to ensure the effectiveness of investment, the EU has introduced ex-ante and ex-post conditions. The former include preconditions that need to be implemented by each state before it can access the funding; the latter represent targets that need to be achieved as a
way of measuring impact. Demonstrating such impact by 2019 will allow countries to tap into the final 6% of their allocated resources, which, in case of failure to achieve the previously determined objectives, would be distributed elsewhere. In short, EU money now has strings attached.

The obligations to undertake specific reforms and output targets are spelled out in the Partnership Agreement that each country signs with the European Commission. In the case of the Bulgarian agreement, signed on 7 August 2014 during the tenure of Ms Tsanova in government, there are 32 conditions to meet. Among them are key areas such as the spending of national and EU funds through public procurement, the optimisation of the hospital network and emergency services, water sector reform, administrative reform, and others that need to be implemented by the end of 2016. The funding itself is concentrated in three key areas: basic infrastructure construction and modernisation (with 45% of Bulgaria’s EU funds); increased research and innovation (R&D needs to increase from 0.6% of GDP, its lowest level in the EU, to 1.5% by 2020 in accordance with the EU 2020 priorities, although even that would only be half of the current 3% EU average); and support for social policies fighting unemployment, poverty, and exclusion that have so far benefited more than one in seven Bulgarians.

These measures certainly read like a list of reforms for investment and a plan for the next 10 years, which should be implemented by at least three different governments. The thorny question, as Ms Tsanova was quick to acknowledge, is that ‘you can lead a horse to the water, but you cannot make it drink’; thus, even if the Partnership Agreement opens up the possibility of significant reforms and funding, there is a clear need for political leadership and continuity to comply with the commitments. Not carrying out these reforms would be difficult to explain to society, particularly if that leads to the loss of substantial amounts of funding; this in turn should create strong incentives for political leaders to complete them.

If efficiently used, EU funds are anticipated to, by 2020, increase real GDP by 8.7%; help increase employment by 6% and wages by 37%; and spur investment, both public and private, by more than 30%. Furthermore, the real success would be if Bulgaria manages to ensure EU funds are no longer essential for the functioning of the economy, but rather serve as an additional catalyst for growth and mobilisation of private sector resources that make the country an attractive place to invest in again. The caretaker administration has taken the first step in that direction by proving that EU funds can be managed in a transparent and professional manner; this has led to higher expectations, raising the bar for the politicians, who now need to show results – and show them fast.

The EU’s Energy Union and its impact on South Stream

Our second panellist was Mr Julian Popov, currently a fellow at the European Climate Foundation and head of the South East Europe Grid Initiative, and a former Minister of the Environment in the caretaker government of 2013. He highlighted that EU energy policy is not static and its policy is evolving in ways that would shape Bulgaria’s energy choices in the near future. A key recent development at the EU level has been
the call by Donald Tusk, while still Prime Minister of Poland, for an energy union. In a way, this is another episode that highlights the crisis management nature of the EU – in response to Russian behaviour in Ukraine, Tusk proposed that the EU begin to buy gas collectively as an entity (rather than via individual bilateral contracts as is currently the norm). This would be particularly important to Eastern European states that are highly dependent on Russia for their gas imports and which pay a significantly higher price.

However, it quickly became evident that collective purchasing of gas is a non-starter. Yet, according to Popov, the very idea of an energy union served to tip South Stream – not a very sensible economic and energy project anyway – over the edge and led to Putin cancelling it during his recent visit to Turkey. In turn, this removes a significant source of potentially corruptive funding from Bulgaria, the Western Balkans, Austria, and Italy, which could spur energy efficiency by promoting optimisation of the gas infrastructure in the region along North-South lines. It is thus possible now to envisage a more open gas market as a key step to achieving the EU’s objective of a unified open energy market across member states.

**Bulgaria’s energy sector: The costs of policy incoherence**

Our final speaker was Ms Maria Mihaleva, a lawyer specializing in energy issues at Schoenherr’s legal practice in Bulgaria. She argued that the domestic energy market seems to be stuck in limbo due to regulatory, political, and judicial action. The good news, however, is that Bulgaria had already exceeded the EU 2020 renewable target in 2012, chiefly due to decreased electricity consumption and an influx of solar plants. This led to a somewhat incoherent process of withdrawal of incentives (such as long-term power purchase agreements or other preferential treatments) followed by turmoil in the sector. Thus, for example, interim fees were introduced in autumn 2012 to cover the projected deficits in the system due to more expensive purchases of renewable energy. However, they were discriminatory as they were based on the amount of income, rather than profits, that each plant receives; this led to a protracted legal case that eventually revoked the decision and ordered that collected fees be reimbursed (no fees have been reimbursed thus far). As the deficits continued to mount, another fee was introduced in January 2014, this time a 20% charge on incomes. Again, following action by the President in referring the case to the Constitutional Court, this was revoked in August 2014. A final recent development is the introduction of the balancing market for renewable energy that shifts the cost of the difference between predicted and actual energy production (which can vary substantially in wind parks, for example) from end-suppliers and providers to the energy producers.

Renewables are not the only part of the energy sector that is facing significant problems, as Ms Mihaleva notes. A ticking bomb is the financial health of the National Electric Company (NEC), the state-owned company that buys energy from producers. Due to the relative difference between the high prices at which NEC buys electricity and the low price that Bulgarian consumers are only able to pay, it has piled up a deficit of 750 million euros. This has led the company to postpone some payments, but the fact remains that it is largely insolvent and there is not yet a credible plan to reduce
or even stop the growth of deficits in the system. End-suppliers, owned by foreign companies, represent another issue, with different governments threatening to revoke their operating license for various infringements. In the last case, in mid-2014, the regulator declared that the commercial practice of setting off their dues to NEC was a threat to energy security, though it dropped its threats after the collapse of the government.

Questions and discussion

Following the presentations, the discussion focused on several themes, in particular the investment climate in Bulgaria, the governance of EU funds, and issues in the energy sector. An interesting exchange concerned the drivers of foreign direct investment (FDI) in the country, which fell nine-fold since the financial crisis, between 2007 and 2013. On the one hand, some expressed a political economy view, suggesting that local politicians had to mediate between the interests of a limited number of local businessmen, sometimes affiliated with criminal organizations. This clientelism made it impossible for foreign investors to compete; furthermore, when leaving, such investors often sell off their assets to local actors, thus reinforcing the cycle. On the other hand, some participants felt that pre-crisis FDI was often driven by real estate speculation and that the greater problem is still the huge size of Bulgaria’s grey economy, estimated at around 32%. Addressing such issues would require political leadership and tightening of existing rules more than radical reforms that are often only partly implemented and end up compounding problems. Moreover, despite its difficulties, Bulgaria has achieved success in export-oriented industries that rely little on the government, such as the IT sector, which has also translated into a vibrant entrepreneurial ecosystem.

Another topic of discussion was the governance of EU funds, with a particular focus on local checks and balances. It was pointed out that although there are EU rules and that the EU approved Bulgaria’s management and control system, many issues remain. Some of them arise from overly strict rules that have obstructed and delayed the process. Most of them, however, come down to capacity issues at the municipality level, where the majority of the funds are targeted. Particularly striking was the lack of desire to develop human capital in the management of large-scale EU-funded projects despite the fact that these projects themselves have a budget for implementation that might allow for adequate wages. There was hope, however, that with a new round of certifications and streamlining the governance of EU funds would be improved.

Finally, the discussion came back to various issues in the energy sector. It was pointed out that regulatory authorities in Bulgaria have handled renewables poorly despite their great potential. This has contributed to a public perception that such energy is too expensive and that the country needs to get out of renewables, just as they are becoming competitive with fossil energy. Indeed, some expressed hopes that with smarter regulation and changes to the EU framework, the export of renewable energy can be a great commercial opportunity for Bulgaria. Other participants pointed out the problems with the legislative framework that potentially misapplied certain EU rules to Bulgaria. Yet, it would appear that it was not the law of 2007 that caused the
problems discussed above, but rather its misapplication over a few years that allowed a huge volume of projects to build up, overloading the whole system. However, there was also a positive note that the new Energy Board and amendments that seek to make the energy regulators more independent might lead to improvements in coming years.

**Conclusion**

In summary, this panel tackled two key topics for the economic development of Bulgaria – EU funds and energy policy – and highlighted both the problems that are currently evident in these areas and the potential to reform them in ways that would improve Bulgaria’s long-term prospects. A recent EBRD Transition Report also sums up the need to address the energy sector crisis as an immediate key priority and to make the most of the next period of EU financing.

The feasibility and extent of reforms, however, are going to be shaped by the political economy context in which they are carried out. New conditionalities on EU funds create incentives for change, but possibly diminish local ownership and could lead to some conflicts down the road if changes threaten established interests. Although it is still early in the new financial cycle, the government has already started discussions on topics such as water reform and the governance of EU funds, but it faces a huge to-do list in numerous areas: the agreement with the EC covers public procurement, statistics, research and development, disaster preparedness, water and waste management, transport, health, Roma integration, and education.

In the case of energy, the constraints imposed by burgeoning deficits and developments in the EU’s energy policy are likely to shape the timing and direction of reform, albeit led by mostly reluctant politicians who will be trying to balance the interests of a multitude of stakeholders. These include their domestic constituencies, such as retail and commercial energy users, but also many foreign participants, companies in the renewable sector, several big American investors, and EU officials. Discussions so far have led to the establishment of a consultative energy board and focus on positioning Bulgaria as an EU gas hub in South East Europe, against the background of the ‘ghost’ of South Stream, which has been publicly called off by Putin but not (yet) formally withdrawn.

Nevertheless, the panel discussion has also demonstrated that the incentives for reform in both spheres are shifting in a positive direction and could provide important rewards to potential reformers. In both sectors, Bulgaria has faced a number of unexpected challenges over the last few years; however, there is hope that lessons have been learned and more substantial progress can be made over the years to come.
Conclusions

As the panellists outlined in the discussion on ‘Bulgaria in the International System: Divided Loyalties?’, regional dynamics pose a series of complex challenges for Bulgarian foreign policy. The EU, Russia, and Turkey each stand as important partners for Bulgaria. Yet, Bulgarian foreign policy toward each of these actors is mired in broadly passive and reactive responses. In order to develop a coherent and effective external behaviour, Bulgaria faces the challenge of engaging the EU, Russia, and Turkey in a proactive way. Moreover, the country still needs to hold an open and honest debate about its historically loaded relationships with Russia and Turkey to prevent foreign policy from becoming hostage to ‘divided loyalties’.

A set of crucial domestic challenges were highlighted in the second panel discussion on ‘Domestic Politics, the Rule of Law, and Judicial Reform’, including the future of the main political parties in Bulgaria; the need for reforms in the banking and energy sectors; and the creation of a viable, strong civil society movement that functions as a check on the government. While Bulgarian civil society articulated a series of concrete demands on the previous government, it remains to be seen whether it will continue to grow and exert robust pressure for reform, or whether it will itself succumb to deadlock. Likewise, it remains to be seen whether key reforms in the Bulgarian judiciary, pension services, and banking sectors will be undertaken in the immediate future.

The discussants of the third panel similarly highlighted the crucial importance of reforms in the economic and energy sectors in Bulgaria, with a pointed emphasis on the efficient use of EU funds and the development of a sound energy policy. In both instances, domestic budgetary constraints are likely to shape the timing and direction of reform. Nevertheless, key new measures, including accountability mechanisms attached to EU funds, will ensure that reforms are, at the very least, initiated.

Overall, through these discussions, the Conference brought together academics and practitioners, establishing a platform for the discussion and analysis of the continuous trends and the needed changes in Bulgarian foreign policy, domestic politics, and economics. The task for the future will be to assess the extent to which the new government will be able to respond to these various challenges and induce positive change.
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**Principal objectives:**

- To support high-quality teaching and research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote the multi-disciplinary study of the region within the University of Oxford (e.g. politics, international relations, anthropology, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.