AICEI PROCEEDINGS

The New Economics: the Need for Real Enforcement

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Abstract

This paper examines the bureaucratic constraints on growth in Bulgaria a member of the European Union. The aim of the paper is first to document these constraints with examples from small and medium size business enterprises. A second aim is to demonstrate how bureaucratic constraints, particularly the existing distribution network, contribute to the necessity of small and medium size business smuggling to remain competitive. The third aim is to put the situation in Bulgaria into the European context following the arguments of Prime Minister Cameron who has proposed "a leaner and less bureaucratic European Union." The paper offers a solution to bureaucratic constraints; the introduction of a Uniform Commercial Code for the European Union, following the example of the Uniform Commercial Code adopted in the United States. he Uniform Commercial Code "a comprehensive code addressing most aspects of commercial law, is generally viewed as one of the most important developments in American law. Bulgaria's Economy Minister has recognized the anti-competitive nature of business in the European Union noting that only smuggling generates any growth. He noted that "if we have to choose between [a] gray economy and no economy, Bulgaria is definitely better off having [a] gray economy." Specific examples of the causes of the need for small and medium size business to adopt the methods of the gray economy will be documented. Specific examples of external anti-growth business competition from non-Bulgarian companies financed by European funding institutions will also be documented. The need to bypass existing legal distribution networks will also be documented. The

AICEI Proceedings, 2013, Volume 8, Issue 1
DOI: 10.5281/zenodo.4543301

paper will then identify the benefits of a Uniform Commercial Code for the European Union based on the experience of the Uniform Commercial Code in the United States. Such a code will provide a means of replacing existing bureaucratic constraints on business in the European Union. A Uniform Commercial Code will also provide new economics for distribution in the European Union and in this way contribute to a leaner and less bureaucratic European Union.

KeyWords: European Union, corporate governance, law enforcement, small and medium size business, Uniform Commercial Code

"We now see that we are still a long way from being a Union in which the same rules apply"
(Higgins, 2013)

Enforcement of European Union law "is the prerogative of the European Commission" (Eurofound, 2013). The "failure to develop a uniform system of enforcement" of EU law (Eurofound, 2010) means that administrative enforcement is "achieved through national administrative mechanisms." "The effectiveness of national enforcement mechanisms is "under review." The effectiveness of national enforcement mechanisms follows one of at least two tracks. The first track, chosen by the United States in, for example, the Sarbanes Oxley Act (SOX) is known as 'comply or else.' In other words failure to comply leads to legal sanctions. The second track adopted by the 27 states in the EU is known as 'comply or explain.' A weaker version of 'comply or explain' known as 'apply or explain' may be seen "more appropriately" (The Netherlands Code, 2004) to convey the intent to enforce eventual compliance. According to the Center for European Policy Studies, employment of different versions of the law has led to "weak enforcement and compliance" and these undermine EU law and "are the biggest obstacles to reaping its full benefits" (Pelkmans & De Brito, 2012).

In the context of the Pelkmans and De Brito study, this paper investigates the apparent 'apply or explain' approach seen in Bulgaria, with the intention of confirming their expressed need for enhanced enforcement in the EU single market. As they note (2012) “despite the recent more effective enforcement in the single market, it would be a mistake to hold that the enforcement issue is ‘solved’, far from it.” Nine cases are investigated employing forensic audit techniques to consider whether the purposes of the European Commission funds have been fulfilled.

As in Germany, so in Bulgaria, “per capita economic growth has been positive” and Chancellor Merkel has praised Bulgaria “as a model for other European economies to follow” (Krastev & Ganev, 2013). Yet “Bulgaria has no long-term vision” (Passy, 2012) and “rather than look for ways to improve state enterprise efficiency by improving governance structures,” many government departments, especially Education, Transport, and Finance, have failed to implement necessary reforms and “managerial positions have continued to be part of the political spoils system” (Jones & Miler, 1997). Public benefits, widely available before the 1989 transition, keep in place a culture of “firm performance’ rather than individual initiative and enterprise (Klinedinst & Rock, 1997). The “lack of qualified staff” and “lack of implementation of laws” was seen in 2007 to be the biggest problems by the Bulgarian Industrial Association (Beekman, 2007). In spite of German financial policies, the situation has yet to change (Novinite, 2012). This provides a context for forensic research into corporate governance: the identification of perceived weaknesses and the provision of evidence on the control and care applied by the European Commission over EU funds in Bulgaria.

Method

Forensic accounting “is the application of investigative and analytical skills for the purpose of resolving financial issues” (Hopwood et al., 2008) to provide evidence for legal or appropriate administrative action. EU Commission investments of European taxpayer funds are designed to “create smart, sustainable growth and get Europe out of the current economic crisis” (CORDIS, 2010). Thus investment policy focuses on competition and productivity (EBRD, 2011), fosters job creation (CPESS, 2007), and seeks to support capital formation (Krkoska, 2001). The risk of poor policy is inherent. For audit purposes this risk can be checked by monitoring internal control and testing, at the micro level, the controls put in place (Whittington & Pany, 2010). This monitoring process includes detection of actual practice compared with the strength or weakness of the control mechanism and whether appropriate control policies have been implemented effectively. Unfortunately an effective audit process is not formally in place. Indeed, for some time there has been recognition that decentralization of the administration of European Funds requires appropriate levels of independent audit "because what happens with the centralization of power is you get corruption and stagnation" (Brewster, 2003). The cases investigated in this paper research the problem. We note that the then Chief Accountant of the European Commission stated that the system was "open till waiting to be robbed" (Evan-Pritchard, 2005) and that the quality of accounting and auditing continues to be "chronically sordid."

To document the risk of failure to meet European Commission investment design this chapter documents nine separate cases covering areas where the European Union, through Commissions and the European Bank for Reconstruction and Development, and EU absorption funds have managed to:

- Focus on competition and productivity
- Create smart sustainable growth
- Foster job creation
- Support capital formation.

Results

We provide, in summary, our audit of nine micro-level examples of the employment of European funds to promote these four conditions. The nine cases are as follows:

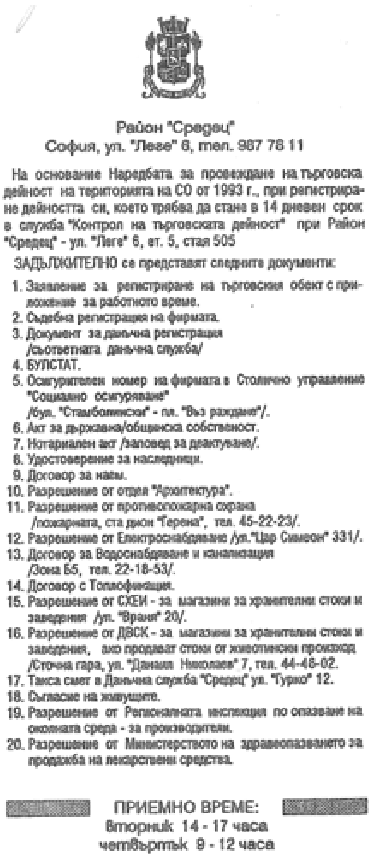
1) Improving the conduct of business in Sofia
2) A note on the Grey (shadow) economy
3) A restaurant opening in Bulgaria
4) The need to smuggle
5) CAP Agriculture
6) Freedom Square, Ruse
7) Tourist hotel, Simeonovo
8) The Strand mall Bourgas
9) The investment in Chalga

In this paper we then provide in well-supported detail our discovery of the facts and features of these micro-level examples of the current employment of European funds. We believe that other researchers may wish to take the opportunity to replicate our analysis and to come to similar conclusions.

Audit Results

1. Improving the Conduct of Business in Sofia:

Ten years after Perestroika regulations for setting up business in Sofia required the acquisition of some 20 documents set out in Exhibit 1 before a business could open.



Район "Средец"
София, ул. "Леге" 6, тел. 987 78 11

На основание Наредбата за провеждане на търговска дейност на територията на СО от 1993 г., при регистриране дейността си, което трябва да стане в 14 дневен срок в служба "Контрол на търговската дейност" при Район "Средец" - ул. "Леге" 6, ет. 5, стая 505

ЗАДЪЛЖИТЕЛНО се представят следните документи:

1. Заявление за регистриране на търговския обект с приложение за работното време.
2. Съдебна регистрация на фирмата.
3. Документ за данъчна регистрация /съответната данъчна служба/
4. БУЛСТАТ.
5. Осигурителен номер на фирмата в Столично управление "Социално осигуряване" /бул. "Стамболийски" - пл. "Възраждане"/.
6. Акт за държавна/общинска собственост.
7. Нотариален акт /заповед за деактуване/.
8. Удостоверение за наследници.
9. Договор за наем.
10. Разрешение от отдел "Архитектура".
11. Разрешение от противопожарна охрана /пожарната, стадион "Герена", тел. 45-22-23/.
12. Разрешение от Електроснабдяване /ул."Цар Симеон" 331/.
13. Договор за Водоснабдяване и канализация /Зона Б5, тел. 22-18-53/.
14. Договор с Топлофикация.
15. Разрешение от СХЕИ - за магазини за хранителни стоки и заведения /ул. "Враня" 20/.
16. Разрешение от ДВСК - за магазини за хранителни стоки и заведения, ако продават стоки от животински произход /Сточна гара, ул. "Данаил Николаев" 7, тел. 44-48-02.
17. Такса смет в Данъчна служба "Средец" ул. "Гурко" 12.
18. Съгласие на живущите.
19. Разрешение от Регионалната инспекция по опазване на околната среда - за производители.
20. Разрешение от Министерството на здравеопазването за продажба на лекарствени средства.

ПРИЕМНО ВРЕМЕ:
Вторник 14 - 17 часа
четвъртък 9 - 12 часа

Exhibit 1: Trade Regulations Sofia 1993 – Translation Appendix A

Remarkable Efforts to simplify since Bulgaria joined the European Union have led to a significant improvement toward company formation. As elsewhere in Europe, Bulgarian companies can now be formed via agents off-the-shelf (Zaraconsult, 2013) to take advantage of the lowest corporate tax in Europe at 10% (Deloitte, 2012)

Nevertheless in spite of the lowest taxes and the lowest average wages Bulgaria is ranked 66th in the world, and last in Europe, for overall doing business (World Bank, 2012). Detailed rankings are set out in Appendix B. and otherwise as set out in Exhibit 1 below in other categories.

One of the reasons contributing to the difficulty of doing business in Bulgaria may be seen to be the acceptance of Bulgarian as an official language of the European Union. Europe has too many official languages and will do well to follow South Africa's example when it comes to providing an English translation for legal and business activity. South Africa has eleven "official" languages but a Use of Official Languages Act which requires legal and business activity to be reported in English (SA Gazette, 2012). The European Union with twenty-three "official" languages and three "procedural languages (Europa, 2013) will attract more business when legal and business activity are always made available in English. The absence of the employment of a single operational official language, English creates two problems for doing business in Bulgaria. First many of the Bulgarian government documents and websites are not required to be set-up in any other language than Bulgarian, inhibiting direct foreign investment into Bulgaria and secondly Bulgaria is contributory to the massive bureaucracy required to meet this obfuscating reality. The World Bank Group rankings confirm the impact of bureaucracy on business in Bulgaria. A "massive downsizing" is seen to be "the best anticrisis measure for the Bulgarian government" (Novinite, 2010).

2. A Note on the Grey (Shadow) Economy

The Grey (shadow) economy in Bulgaria is variously thought to have been on the wane since 2007, the year of Bulgaria's accession to the European Union (Novinite, 2013. Nevertheless the size of the grey economy in Bulgaria was then estimated to be between 25 to 35 per cent of the country's gross domestic product (Sophia Echo, 2013). The wane since 2007 however is in doubt. Expert analysis as recently as 2012 considered the grey economy in Bulgaria exceeds 30% (Novinite, 2012).

Whatever the level of the shadow economy, the facts are simply that the Bulgarian authorities are not yet prepared to take on the role of watchdog, ensuring for its citizens the rule of law in preference to permitting a wide range of illicit dealings. The grey economy is seen to be directly involved with government-funded construction projects, contracts for public procurement, and general under-reporting of company turnover, wages and salaries for tax evasion purposes. Recently the Center for the Study of Democracy hosted a public discussion at the press center of the Bulgarian Telegraph Agency on the subject of the continuing grey economy (CSD, 2013). The then Minister of Finance, Traicho Traikov, stated publicly that “a grey economy was better than no economy” (Novinite, 2011). Our audit examination of the grey economy begins then in the context of broad social acceptance of Bulgaria’s grey economy and in the absence of any apparent sincere determination to reduce or eliminate its presence.

3. Starting up a Restaurant

How hard is it to set up a small restaurant in Bulgaria? One might expect that opening a small restaurant is not a very “complex and costly process.” To the contrary in Bulgaria, the process is hindered from the outset by “regulations and administrative requirements” usually requiring the cost of “expert advice” (eObshtestvo, 2013). Indeed such is the complexity that expert facilitation is needed to complete the process in return of course for a modest cash fee.

The first barrier to doing business is bureaucracy. The process is thoroughly described in a website called eSociety (2013). A lawyer is required (minimum BGN 500) for the business incorporation documentation. The minimum time to open is 18 days which compares with a single day elsewhere in the world (World Bank, 2012). In practice 18 days in the case of a restaurant is optimistic, perhaps if the appropriate attorney is available and in a good mood. After creating your own company you need to hire an accountant. Fees become a significant expense especially if revenue generated exceeds BGN 50,000 when you must also register for VAT (NRV, 2013).

Unusually for the western world all these processes have to be completed in person by you or your sworn representative – the process may not be completed over the Internet in the country with Europe's third fastest Internet (Catone, 2011). Once the restaurant location is established a busy period of compliance ensues, obtaining approvals from the Fire Department, Local and Regional Inspectorates for Protection and Control of Public Health, utility suppliers and others. These processes can be expedited with unofficial "facilities" payments. Appropriate documentation is now in place for precise scales (these must also be certified by the national agency), permits from the water and electricity companies, a document confirming opening the electrometer and water meter readings (certificates from appropriate national agencies), and depending on the region many, many other documents which take days and days to be issued (Zavedenia, 2013).

Further delaying and complicating the opening is the fact that a full set of information is not available in any language other than Bulgarian. Even to a Bulgarian the process is seen to be a "secret" ensuring that more than a single company is needed and the process of small facilities payments keeps needless regulation on special rooms for eggs and extra freezers for meat and fish, at bay. Thus the process relies on an inefficient group of bureaucrats to liaise with professional facilitators providing a filtering system which denies initiative, innovation, and job creation. Like a chef's cleaver, the process is at the cutting edge of economic growth denial.

4. The Need to Smuggle

Small retail businesses are at the core of Bulgaria's economy. On condition of anonymity our sources identify the business model which is fundamental to sustaining a manageably profitable small retail business away from the capital Sofia in Bulgaria.

Several critical barriers to the normal retail business mode exist. To get round the barriers retail business owners resort to "unorthodox" ways of doing business variously described by observers as bribery, creative accounting, and tax evasion (Novinite, 2011). According to our sources doing business without "unorthodox" activity is not a matter of choice but an essential feature of retail business in Bulgaria if you wish to stay in business (BBC News, 2013).

The principal source of consumer goods for resale in Bulgaria is Turkey (Bridgat, 2008). Turkey is a preferred supplier for a good reason. Relatively close proximity to Bulgarian retail outlets means low transport costs. The quality of Turkish imports in the case of the retail fashion industry compares favorably with European source brands such as Dolce and Gabana and Gucci from Milan. In addition production facilities in Istanbul indicate that Istanbul may be the world's new fashion capital (Skylife, 2009). Significant manufacturing and production facilities also exist, not just for clothes but for car parts, cosmetics, and consumer products with a wide range of price and quality to satisfy world demand (Biztradeshow, 2013).

Constraints on the importation of official retail goods from Turkey are twofold. The distribution network into and within Bulgaria is slow and expensive. Cargo carriers are slow regularly exceeding two weeks for delivery from Istanbul to Sofia (at 567 kilometers, less than a 7 hour drive by car). Additional time may be needed for rural retail business. Then cargo fees are correspondingly excessive as these will also include substantial customs duties.

Fortunately, for small retail business customs officers in Bulgaria are widely accepted to be the most corrupt public officials (Dalley, 2012). Thus private transport and relatively small (and unrecorded) facility payments to the customs reduce the cost of imports by more than 15% and therefore become the required model for small retail businesses who wish to stay in operation. Given the poor transport and poorly managed customs, the business model described is mutually beneficial for both parties and despite efforts to fight it (Krasimirov, 2012) smuggling is still happening on a large scale.

Thus consumer goods worth BGN millions enter Bulgaria, thereby escaping any record at customs. From an accounting point of view, these goods are not officially in the market place. No official documentation accompanies them. However there is a cottage industry providing "proven" documentation (forged) should there be a need to prove that the inventory is not stolen. On the relatively rare occasion when inventory items are unaccompanied by "proven" documentation a small facility payment will take care of the oversight.

Then the threshold for registration for Value Added Tax (VAT) purposes in Bulgaria is BGN 50,000. Many small retail businesses will evade meeting this threshold and thus avoid the 20% VAT. Should a small retail business meet the VAT threshold it would be necessary to provide proof of source and this is contributing to Bulgaria, like Greece, becoming a nation of small shopkeepers and adopting tax evasion as a "national pastime" (Surowiecki, 2011). Clearly rising to the BGN 50,000 threshold is a matter to be avoided. No surprise then that almost all small retail businesses in Bulgaria are forced "to cook their books and avoid taxation" (Standart News, 2012).

Small business owners do not like committing fraud or bribery. "If there was a fast cargo service at normal prices I would never try to smuggle anything. For me it is better to have the invoices as it is sometimes very hard to find a forged invoice, and these do not come cheap as you can imagine" (Small retailer, Blagoevgrad, 2013). Currently, there is no viable alternative to trade with Turkey. European imports simply cannot compete with imports smuggled in from Turkey.

5. CAP Agriculture

Prior to World War II, agriculture "contributed 65 percent of NMP (Mongabay 1990) and four out of every five workers were employed in agriculture. The World Bank Report in 2012 indicated that the agricultural component of Bulgarian GDP was no more than 7.2% (Trading Economics, 2012). Bulgaria was "the leading food exporter in Eastern Europe" in the 1980s. Setbacks caused "by the economic difficulties" in the decade after the fall of communism in 1990 had a meaningful and significant impact on productivity (Globserver, 2012). Agricultural support from the SAPARD (Special Access Program for Agriculture and Rural Improvement), and the Cap (Common Agricultural Policy) have started to make some impression. The President of the Bulgarian Slow Food Foundation for Biodiversity, Dessislava Dimitrova has noted that "small farms can grow" and recent reforms can be "a good stimulus for farm development." Even with food prices low there is clearly an opportunity for growth in high-price specialist Bulgarian foods, such as Bulgarian green cheese from Chrni Vit (Balkan Travelers, 2011) and a return to significant exports (Slow Foods, 2012)

Our investigation of this promising and as yet untapped national resource noted that there were indeed payments for agricultural activity getting to small farmers, albeit after not insignificant Ministerial administrative costs at the national, regional and local level. Interviews confirmed that payments were based on "tilling the land." Small farmers who were already tilling the land and those with land which they decided to till would benefit from these EU payments. Our contact with the Blagoevgrad area regional and local personnel in charge of the administration of these funds confirmed that funds were paid upon satisfactory evidence of tilling. There were no performance measures related to productivity or acreage at this stage. Thus, in general, these CAP handouts to small farmers are not being invested in agricultural product growth. To the contrary they are said to explain the increase in the acquisition of automobiles and consumer products.

6. Freedom Square Ruse

Ruse is the fifth biggest town in Bulgaria. Famous for its 19th and 20th century Neo-Baroque architecture, known as "Little Vienna under the Bridge," the Giurgiu Bridge across the Danube, Ruse welcomes visitors from Romania. (Ruse, 2013) To restore the historic landmark Freedom Square, (Trip Advisor, 2013)," the city applied to the European Commission (ERDF, 2013). Funding was granted in July 2009 (Ruse Municipality, 2009). "Reconstruction and modernization of the city area for relaxation – central town garden" is a Euro 5 million project requiring matching funds from the City's budget of Euro 450,000 (Investor BG, 2009).

The project was inevitably the subject of political debate with allegations of corruption supported with any number of rumors and stories locally and during the course of the program. Significantly the project was not audited. As early as July 2007 when the project was first initiated "Rusenski Stroitel, a construction company ("Ruse Constructor – 96") filed a complaint, against a mayoral decision on eligible companies with the Bulgarian Commission for Protection of Competition. According to the complaint procedural errors were made including changing the deadline for receiving offers from March to April and then the deadline for filing documentation was back dated from June to May with inappropriate notice as reported in *Dyrjaven Vestnik* (2013) and recorded on the register of the Bulgarian Public Procurement Agency (*State Gazette* this is where all new laws, are published after they have been voted on).

There was subsequent confusion as companies that wanted to apply were excluded. Recognizing these procedural errors the municipality nevertheless responded that the claims, albeit true, were not sufficient to stop the project. There was also a jurisdictional question since the “mistakes” were not considered to be within the jurisdiction of the Commission for Protection of Competition. Therefore the Commission for Protection of Competition determined to take no action (RuseInfo, 2010).

Construction started in November 2010 by a consortium of three firms. Departures from documentation continued. The old marble pavement was replaced with imported cheap Chinese rhyolite regardless of European Union rules on EU quality certification. Similar disregard for proper documentation and quality certification continued in the newspapers and by word of mouth. Individuals working on the project confirmed privately how many opportunities were taken to re-document materials, adjust charges, and muddle quality certification all the way to the ribbon cutting ceremony held by then Bulgarian Prime Minister Boiko Borisov.

The Ruse project peculiarities followed on a long list of “weaknesses and irregularities in the management” of EU funds identified in 2009 (Europa). These and other irregularities were proved not uncommon when “a group of Sliven municipal councilors” identified similar corruption in a documentary uploaded on the internet, with English subtitles, entitled “The New Mafia” (SETimes, 2011). This then led to the unprecedented freezing of EU Funds by then Prime Minister Boiko Borisov (Eubusiness, 2011).

7. Tourist Hotel, Simeonovo

The European Agricultural Fund for Rural Development (EAFRD) has the following goals, contributions to improving:

- the competitiveness of agriculture and forestry;
- the environment and the countryside;
- the quality of life and the management of economic activity in rural areas

(Europa 2013)

One interesting and not untypical EAFRD project, nearing final completion this April 2013, may be found in the Bulgarian village of Simeonovo. The total value of this medium size project is set at Euros BGN 500,000 (Euros 250,000). The project is to foster tourism and improve the quality of life in this south-eastern area of Bulgaria where the average monthly salary is well below the Bulgarian average of Euro 393, the lowest in Europe

The building, a two star hotel with capacity between 20 and 30 people has been approved and will be fully subsidized by the EAFRD. To be accepted for such an EAFRD grant the applicant must provide evidence of up-front finance for construction of the project through to completion. Upon completion, within a specified time limit, and after appropriate inspection, the EAFRD reimburses the grantee upon appropriate documentation for the outlay of all related project costs.

In this way the European Commission fund expects to meet the EAFRD goals. Absent access to capital, likely in this impoverished area, and projects are not eligible for funding. This certainly limits funding to those with access to capital. This may not be seen to foster fair competition, except for the wealthy.

Fortunately, in this case, the grantee had access to the funds necessary to achieve completion. This introduces consideration of performance measures for the hotel. There is no profitability requirement, not even targets for return on investment or other measures of meeting EAFRD goals. The only requirement in this case is that the building meets the specifications agreed in the grant documentation including a requirement to be operational (but not necessarily at break-even) for five years.

The location of this hotel is far from any tourist or commercial area. Evidence of some level of paid occupation by unrelated parties of the hotel over the initial five years of operation is not required. Since the hotel guests need not be listed (or otherwise documented) the accounting records need not even be audited. Revenue and expenses may be adjusted to minimize taxation (perhaps keeping below the BGN 50,000 VAT threshold).

Exhibit 2: The two Star Tourist Hotel – Simeonovo

As noted the hotel is located in the small rural village of Simeonovo. With no paved road access, the building presently lies in the middle of a field (see Exhibit 2). The village has a population of 311 (GRAO) predominantly elderly people and pensioners. Physical verification, on foot, on several occasions confirms the area is almost deserted. The surrounding area boasts several abandoned houses and the former local school was bought by a British family for a private summer residence. During winter the village has no visitors. With just one bus stop and one small store, the village of Simeonovo boasts neither a historic monument nor any tourist attraction. Simeonovo is far from the nearest main road. Our author, who with his family has lived in Simeonovo for 20 years notes that there is no reasonable expectation of any of the EAFRD goals being achieved by this project.

The hotel, sited near to houses that have been abandoned and are beyond repair, may not have any EAFRD goal achievements; however the owner will acquire a modern house at a remarkably low price. A sound, yet subtle, logic justifies the project for the grantee, a wealthy and pleasant businessman from Yambol, who is the owner of the local cable TV channel and the main internet service provider in the region.

The local construction company has considerable experience on similar construction projects and, in the process, the EAFRD grant application process. A representative of this company confirmed that to complete the application process, the estimated project costs are based on published current market prices. Such estimates usually exceed the actual prices to be paid in the grey economy by up to 20%. It is no surprise to find that the main business of this company has been the construction of similar EU funded projects. In this way a project to be granted Euro 500,000 may limit cash outflow to no more than Euro 400,000 including the cost of any necessary forged documentation. There is no need for Net Present Value calculations to evaluate such capital investment projects.

The funding of projects of this kind appears to be the rule rather than the exception in the case of EAFRD projects. There is no evidence in the Simeonovo case or from the experience of the contractor of growth or job creation, except in sustaining that particular construction company. We found it difficult to understand why the EAFRD does not require an independent audit of the costs of the construction. Indeed the hotel at Simeonovo confirms the need for serious reforms of the grant process which needs to be restructured so as not to encourage the continuation of unsatisfactory business practices.

8. Strand Company Bourgas

The first outdoor lifestyle center opened in Bulgaria with a planned multiplex cinema and restaurant arcade (Strand, 2012). Bourgas, a regional economic hub, was seen to provide a growth opportunity by introducing a modern lifestyle design Mall into the Izgrev commercial zone near the main traffic hub of the city where Carrefour, Metro and Technomarket were newly established occupiers. Most important the Strand Company is a real-estate developer based in Bulgaria and provides the Bulgarian economy with a locally capitalized and funded company which needs to be sustained to generate Bulgarian management to achieve growth and exploit local employment with skilled jobs to strengthen the Bulgarian economy.

The focus of the lifestyle Mall was to be on regional industry and, by providing for inexpensive retail space for local industry, to promote growth in the region and to add jobs. The Strand Company raised Euro 25 million for the project and initiated the necessary applications and received approvals and began the project. Pioneering the development of regional industry by providing a sales and marketing focus for regional products, they set about completing the product and achieving their aims.

After Strand began their project the European Bank for Reconstruction and Development (EBRD) announced that they were considering providing a Euro 45.6 million loan to Global Trade Center (GTC) one of the world's 250 largest multi-national Real Estate Companies headquartered in Poland (GTC, 2013). GTC has a history of EBRD funding for traditional (as opposed to lifestyle) Malls.

Traditional Malls have reached the end of their life cycle. (Peterson, 2011) Worldwide Peterson noted traditional malls have become "an endangered species" only surviving while the Internet remains unaccompanied by modern distribution. Traditional malls typically lose money in the aftermath of the financial crisis and in countries such as Bulgaria, where per capita income is low. Empty space in the Sofia malls simply confirms this fact. (Sophia Echo, 2009) Meanwhile lifestyle malls, with significantly less capital investment, pay great attention to "going green," (Robaton, 2013) with no air-conditioned underground parking, windows that open, and self-sufficient power plants, which more than halve running costs.

EBRD's financing guidelines (Guide, 2011) set out criteria including:

● "Have strong commercial prospects"

● "Benefit the local community and help develop the private sector"

By no stretch of the imagination, could these criteria apply to the proposed GTC mall in Bourgas. Indeed a traditional GTC mall with a history of failing to break-even on operations will certainly not have any strong commercial prospects and the introduction of subsidized and artificial competition only serves to handicap the development of the Bulgarian private sector and the potential for retail growth and jobs in the Bourgas region. This we know from the Office of Fair Trading report that "interventions that assist some firms more than others, might be expected to affect competition." (OFT, 2004)

9. The Investment in Chalga

"Bulgaria's sex-soaked pop-folk music culture known as Chalga" (Sotirova, 2013) secured a Euro 1.5 million grant and brought into question the ability of the Bulgarian authorities to understand the purpose of European Union funds made available for economic development. Whilst the most liberal leaning advocate of growth and jobs might hesitate to fund "performers resembling porn stars singing about gangsters and money" (Economist, 2013) the Bulgarian authorities were "quick to assure" that "from a formal point of view, everything is correct."

Economist reported that the President of Payner Media, the grant beneficiary company, was a founding member of the then ruling GERB party, and the grant provided a "dubious moral message." Payner's owner then promised that "the funds would not be used 'for silicone implants." He later decided to pull out of the Funding" (*Sofia Globe*, 2013).

Summary of Results

In each of the nine cases we have considered how the project met each of the four criteria:

1. Focus on competition and productivity
2. Creating smart sustainable growth
3. Fostering job creation
4. Support capital formation.

Focus on competition and productivity: We considered whether the project was likely to spur other enterprise to enter the market and compete and whether this would lead to the employment of additional people after completion of the project itself. Could we find any evidence of potential for increased market activity other than the project initiatives undertaken?

Creating smart sustainable growth: The question here was whether the EU investment was likely to lead to the further attraction of foreign direct investment into Bulgaria as the EU investment identified sustainable opportunity in the marketplace.

Fostering job creation: EU investment intends to provide an initiative to attract investment in new jobs. Examples in Bulgaria include many Information Technology jobs located in Sofia and created by US and other foreign investors such as the Balkan Accession Fund, Sitel, and 60K.

Support capital formation: Recognizing the limited sources of investment capital available in Bulgaria, EU investments are projected to encourage related investments sourced by inward foreign direct investment. We sought any evidence of similar projects which were attracting direct foreign investment. There is no room in this paper to provide the discussion on each of the projects and therefore the conclusive reasons why we came to our conclusions. For readers who doubt our conclusion we are happy to enter into correspondence and provide additional documentation and support. We do however believe that our conclusions are well-supported and that after reading our summary of the cases the conclusions we have arrived at are self-sustaining. We examined nine cases and came to the following conclusions related to the four stated purposes of European Commission funds. Our conclusions, based on the evidence from our nine cases are set out in Exhibit 3 below.

Key

To provide our conclusions in tabular form, we adopted a simple key as follows:

S = Success

For a successful conclusion we would expect to find similar projects which met each of the four measurement criteria.

s = some success

Recognizing the probability of some market reaction to the EU projects we recognized project criteria where at least some headway was being made in achieving EU objectives.

F = Failure

When we could find no reason to see any improvement resulting from the EU initiative we identified this as a failure.

Case base for Evidence	*1*	*2*	*3*	*4*
1. Improving the conduct of Business in Sofia	s	s	s	s
2. A note on the Grey (shadow) economy	F	F	F	F
3. A restaurant opening in Bulgaria	F	F	s	F
4. The need to smuggle	s	s	s	F
5. CAP Agriculture	F	F	s	F
6. Freedom Square, Ruse	F	F	s	F
7. Tourist Hotel, Simeonovo	F	F	s	F
8. The Strand mall Bourgas	s	F	s	F
9. The investment in Chalga	F	F	F	F
Summary – Total number of EC goals achieved	s	s	s	s

Exhibit 3: Summary of Results and Conclusions

Recognizing the minimalist response to their initiatives, the European Commission has nevertheless continued to provide funds for many projects in Bulgaria. We note that there has been very limited federal effort made to set-up or require the establishment of effective audit systems for European Commission projects. Some progress may be confirmed by the recent charges made against the former Minister of Agriculture for “failing to tackle chronicle crime” (World Bulletin, 2013).

Discussion

We have managed to obtain and analyze the facts for nine cases which we believe provide representative examples of the abuse of the funds of European taxpayers. We have no statistical basis on which to be sure that these nine cases are truly representative of the abuse of such funds. However on the basis of the failure of these cases to do more to meet European Commission fund goals we provide, our research provides a powerful argument for the need for wider audit of the employment of European Commission funds in Bulgaria and perhaps elsewhere in the European Union.

Our evidence must also be seen in the context of the widely accepted belief that the Bulgarian authorities are "endemically corrupt." *The New York Time*s reported that the European Commission was attributing "endemic corruption" to "systemic deficiencies that we inherited from the communist era and before" (Dempsey, 2012). The report also noted that abuses had been the subject of some inquiry" not only by Brussels but also by Europol, Europe's law enforcement agency." Yet the corruption remains endemic.

Our evidence confirms the Center for the Study of Democracy report which noted that "the European Commission bemoans the lack of progress made" and that after discovery of corruption "impunity … is predominant in the country" (Vandystadt, 2012). The figures do not come from the Commission, but from the Center for the Study of Democracy (CSD), a think tank based in Sofia. CSD in their Policy Brief No. 35, June 2012 noted that "around 150,000 bribes are paid out a month" and that corruption is two to three times more prevalent in Bulgaria than the European average and is an "endemic problem."

So our research has reproduced in detail similar findings and with regret we must report that our findings confirm that corruption is not only endemic at the center of Bulgarian political power but also abroad in the countryside and with little or no audit check.

Why has the situation been allowed to fester and continue like a cancer to grow with little or no mitigation?

The structural arrangement of the European Union is often improperly compared with the idea of the Federal government in the United States. The implementation of the Euro single currency is seen to be a significant marker *en route* to a Federal arrangement as may be found in the United States and in the United Kingdom and in Germany. In these three cases the Federal system began with a single language. This was expanded with a uniform set of commercial laws and then a single currency followed.

The post war idea of a United States of Europe (Churchill, 1946) saw the Federal system in the United States as an appropriate European model. The foundation of the Federal system in the United States has at its center the Federal Government in Washington with a strong US legal system which provides for a uniform code of laws and practices across the United States. The uniform code of laws is enforceable by the

Federal government and in the case of corruption the Federal Bureau of Investigation and the Internal Revenue Service Agency. Of particular interest in the case of corruption is the uniform commercial code, which has been adopted by the 50 States, and the right of the Federal government to take direct action when any commercial transaction takes place across state borders. Thus the abuse of Federal funds will be prosecuted by Department of Justice. A list of such actions may be found at the Department's website (DOJ, 2013).

A uniform commercial code and a strong single language Federal government enforcement agency in Europe would take charge of the European Commission funds and make sure that all projects where funds were committed were effectively audited. The structural inefficiency of the existing bureaucracy would be improved and this would have a significant impact on the economy when funds would be consistently monitored so that program goals are attained. This approach is needed to affect a leaner and less bureaucratic European Union.

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Appendix "A"

Translation of Exhibit 1: Trade Regulations Sofia 1993.

District "SREDEC"
6 Lege str. Sofia, phone: 987 78 11

On the basis of the regulation for trade activity on the territory of Sofia municipality from 1993, when registering the activity, which should be in 14 days term in "Control of the trade activity", district "Sredec"- 6 Lege str. V floor, room 505.

The following documents are OBLIGATORY:

1. Petition for registering, with applied work time.
2. Judicial registration of the firm.
3. Document for the tax registration /from the appropriate department/.
4. BULSTAT.
5. The insurance number of the firm from "Sofia social insurance department" /Stambolijski blvd.- Vuzrajdane square/
6. Certificate for state/municipality ownership.
7. A deed executed and authenticated by a notary.
8. A certificate for inheritors.
9. Rent contract.
10. Licence from "Architecture Department".
11. Licence from "Fire Department" / Gerena stadium, phone: 45 22 23/.
12. Licence from "Electric Supply" /331 Tzar Simeon str./.
13. Contract with "Water and Sewage Supply" /Zone B5, phone: 22 18 53/.
14. Contract with "Heat Supply company".
15. Licence from the Hygiene Epidemiological Institution –needed for food shops and places of public resort /20 Vranya str./.
16. Licence from the State Veterinarian Hygiene Commission –needed for food shops if the goods are animal derived /Stochna Gara, 7 Danail Nikolaev str. Phone: 44 46 02/.
17. Garbage tax /Tax Department "Sredec" 12 Gurko str./.
18. Assent of the neighbours.
19. Licence from the Regional Ecology Commission –for producers.
20. Licence from the Ministry of Health –for medicine sale.

Working Hours:
Tuesday 2-5pm
Thursday 9-12am

Appendix "B"

Doing Business World Rankings - Out of 185 countries

	Rank
Starting a business	66
Construction Permits	57
Getting electricity	123
Registering Property	128
Getting Credit	40
Protecting Investors	49
Cross-border trading	93
Paying Taxes	91
Enforcing contracts	86
Resolving insolvency	93