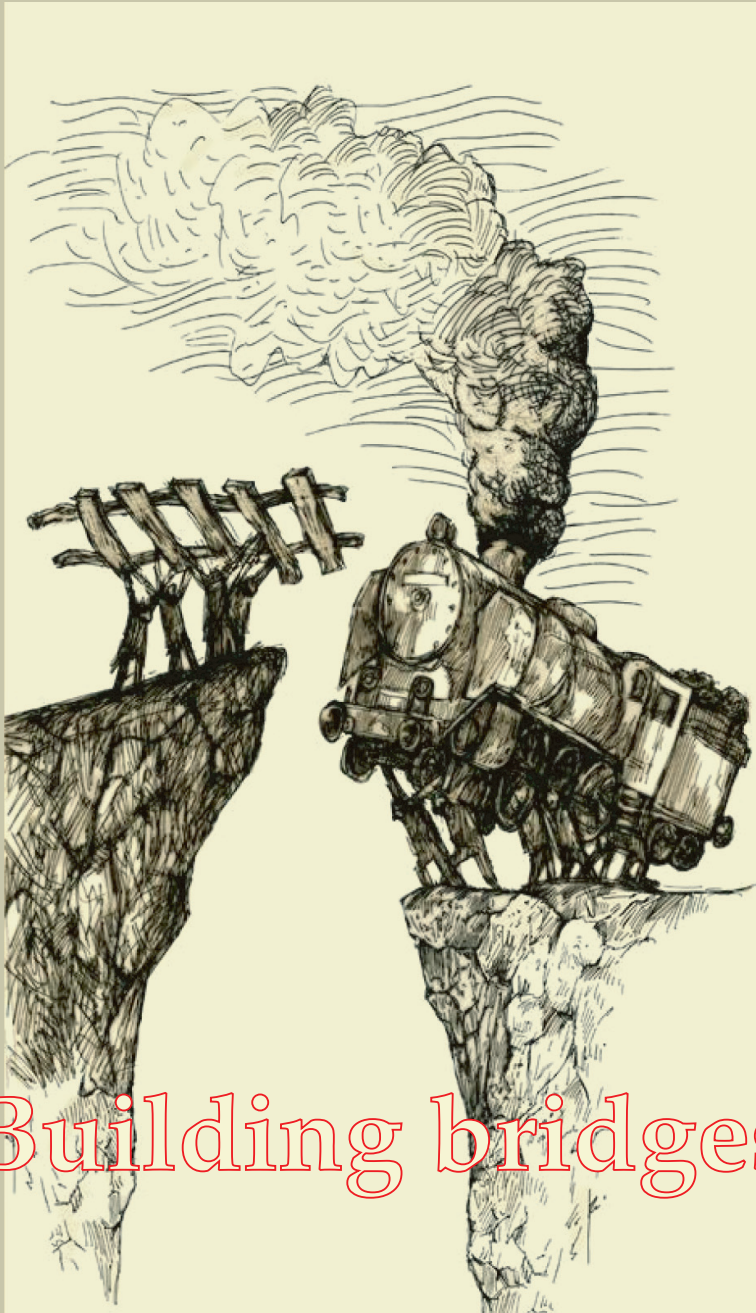


# CENTER FOR THE STUDY OF DEMOCRACY

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ANNUAL REPORT 2011



Building bridges

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**CENTER FOR THE STUDY OF DEMOCRACY  
2011 ANNUAL REPORT**

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Drawing: Anri Koulev

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5 Alexander Zhendov St., 1113 Sofia, Bulgaria

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# Center for the Study of Democracy

*Building Bridges between Scholars and Policy Makers*

Founded in late 1989, the Center for the Study of Democracy (CSD) is an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organization fostering the reform process in Bulgaria through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and serve as a watchdog of the institutional reform process in the country;
- to strengthen the institutional and management capacity of the NGOs in Bulgaria.

“Building bridges” is the old-fashioned way of bringing together social actors and cementing new alliances. Born as a think-tank, the Center for the Study of Democracy has evolved into policy development through dialogue and partnership.

Bringing cutting-edge solutions to transition problems is our way of keeping the middle ground between academia and social practice.

The CSD has pioneered in several areas traditionally perceived as the inviolable public property, such as anti-corruption institutional reform, and national security.

Our belief is that bringing a new culture of cooperation and trust in a milieu of inherited fragmentation and opacity is equally rewarding as the achievement of concrete social goals.

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## Introduction

The continuing global economic rebalancing increased uncertainty and made everyone rethink the way they do business. In Europe, the cradle of the crisis in 2011, national leaders continued to scramble to come up with solutions for moving the Eurozone and the enlarged union forward. Bulgaria, the only EU country to have its credit rating increased in 2011, has boasted macroeconomic and fiscal stability; yet, the issues of reversing oligarchic state capture, and improving the status of EU's poorest nation, are getting even more urgent. These turbulent times have reinforced the cause for a common sense, fact-based approach to social innovation, which the Center for the Study of Democracy has embraced since its founding in late 1989. With 16 publications, reports and policy briefs along with 34 local and international events and numerous media appearances, in 2011 CSD continued to advance on its mission of building bridges between academics and policy makers by way of research, advocacy and awareness-raising.

The year 2011 marked important policy changes aided by CSD both domestically and abroad. CSD energy research and advocacy helped the Bulgarian government strengthen energy security by edging a further bit away from megalomaniac, and corruption-infested projects towards energy efficiency and renewable solutions. The best international expertise on sustainable development and good governance were made available to the Bulgarian public thanks to CSD efforts. The Center carried on its pro-active work in cooperation with law-enforcement and compliance control agencies to tackle corruption and organized crime, increase police responsiveness, reduce conventional crime and limit the negative impact of hidden economy, still without harming the crisis-hit legitimate business and national competitiveness. CSD channeled to Bulgaria valuable expertise on counteracting organized crime, managing asset forfeiture and reforming the prison system. This will help the Bulgarian government to release in 2012 the first national organized crime threat assessment in a unique public-private partnership format.

In Europe, we have seen the European Commission making advancement towards developing a common EU anti-corruption monitoring instrument for which CSD has been advocating for over a decade. With CSD participation a European survey instrument was piloted, which is meant to measure public trust in justice and strengthen civic oversight on the performance of law enforcement and the judiciary. In response to the rapidly changing migration realities, CSD performed an assesment on educational integration of refugee and asylum-seeking children in Bulgaria and continued its efforts to promote measurable and sustainable migrant integration policies. It also contributed to facilitating the transfer of good practices within EU in the field of migrant and child-victims



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of trafficking integration. Furthermore, CSD provided valuable insights to the Bulgarian and European politicians on the Arab Spring events and the possible future paths of transition.

A handwritten signature in black ink, appearing to read 'Ognian Shentov', with a horizontal line above the letters.

Sofia, January 2012

Dr. Ognian Shentov  
Chairman

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# **Part One**

## **Program Reviews**



# Law Program

In 2011, the Law Program's efforts were focused on four main topics: public confidence in justice; information technologies in the judiciary; penitentiary system reform; and monitoring of racism and xenophobia.

## 2011 Highlights

- **Public confidence in justice.** The Law Program published a policy brief and brochure on the use of indicators measuring public confidence in criminal justice as a policy assessment tool. The level of public trust in the police and the courts and the need of introducing public confidence indicators were discussed at a conference hosted by CSD.
- **Information technologies in the judiciary.** A compendium of best practices *E-Tools for Criminal Case Management within Selected EU Member States*, published by the Law Program as a multilingual CD, was presented at a series of training seminars for judges, prosecutors and police officers.
- **Penitentiary system reform.** A study *Penitentiary Policy and System in the Republic of Bulgaria*, was published, offering in-depth analysis of the conditions in Bulgarian prisons and the situation of inmates. During the public presentation of the book, its conclusions and recommendations received support from the Minister of Justice, the Ombudsman and senior judges and prosecutors.
- **Monitoring of racism and xenophobia.** CSD joined the Rights, Equality and Diversity (RED) Network – an independent research network composed of 17 research institutes and civil society organizations in EU Member States. The Law Program is responsible for monitoring racism and xenophobia in Bulgaria and for inputting relevant data into the RED Network early warning system and atlas.

## I. Measuring public confidence in justice

For the last three years CSD has been actively involved in an international initiative aimed to promote the use of public confidence indicators as a tool for policy assessment in the field of criminal justice. The initiative, called Euro-Justis ([www.eurojustis.eu](http://www.eurojustis.eu)), brought together universities and non-governmental organizations from seven EU Member

States in an effort to create standardized system of scientific survey indicators that can be used to measure confidence in criminal justice and to support the development of more inclusionary criminal justice policies designed to secure commitment to the rule of law and thus compliance with the law.

CSD coordinated the process of examining the need for such indicators and contributed to the development of the

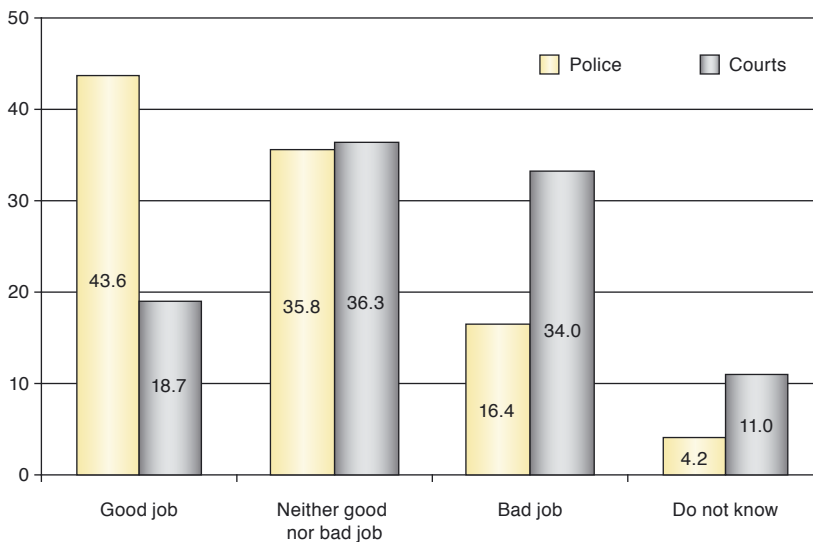
indicators, their practical trial through the 'cognitive interview' method, and the collection of country-level contextual data to appreciate nationally specific issues when interpreting the survey results. Since Bulgaria was chosen among the four countries to field and validate the developed indicators on national level, CSD implemented a national representative survey, which not only tested the indicators but also helped to produce the first of its kind comparative study of the public confidence in the criminal justice system.

The results of the cognitive interviews and the national pilot survey were summarized in two publications prepared in cooperation with sociologists from the Economic Program and Vitosha Research: a policy brief *Public Trust in the Criminal Justice System – an Instrument for Penal Policy Assessment* and a brochure

*Crime and Punishment: Studying Justice System for Shaping Criminal Policy.*

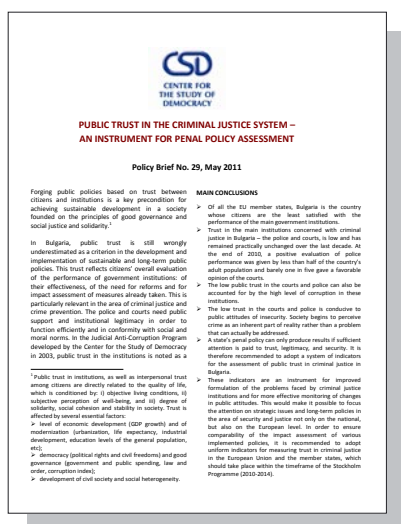
The policy brief *Public Trust in the Criminal Justice System – an Instrument for Penal Policy Assessment* (No 29 of the CSD Policy Brief series) summarizes the main findings of the research and examines the reasons for the low public trust in the police and the courts in Bulgaria. The analysis concludes that the public trust in the main institutions concerned with criminal justice – the police and courts, is low and has remained unchanged over the last decade. This situation can be accounted for by the high level of corruption in these institutions and is also conducive to public attitudes of insecurity. As long as the state's penal policy can produce results if sufficient attention is paid to trust, legitimacy, and security, it is recommended to adopt a system of indica-

**Figure 1. Assessments of court/police performance in Bulgaria (%)**



Source: EUROJUSTIS Pilot Survey

tors for the assessment of public trust in criminal justice.



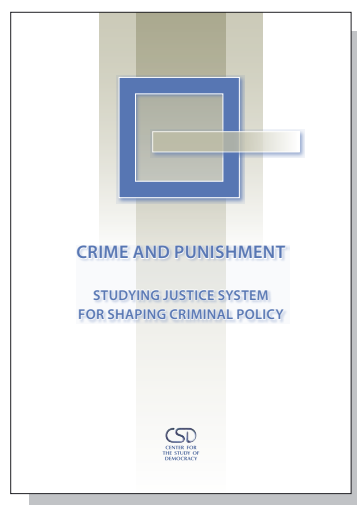
A more comprehensive and in-depth analysis of the cognitive interviews and the national pilot survey was included in the brochure *Crime and Punishment: Studying Justice System for Shaping Criminal Policy*. The first part of the book gives the conceptual framework of measuring public trust in the criminal justice system and explains the advantages of developing confidence-based penal policies, while the second part provides analysis of the public attitudes towards the criminal justice system (in particular the police and the courts) in Bulgaria. The book also offers an overview of the different surveys of public confidence implemented in Bulgaria so far and the methodology used to implement the pilot survey in Bulgaria.

The results of the work under the Euro-Justis initiative were officially presented at two high-level international events held in London, UK.

- At an academic conference (Foundling Museum, London, 12 May 2011), Euro-Justis partners and other pro-

minent experts discussed the findings of the pilot surveys and debated on penal populism.

- The third and final international Euro-Justis conference (Natural History Museum, London, 13 May 2011) presented the work carried out so far and other activities related to issues of trust in justice and legitimacy of the criminal justice system. Invitees to the conference were mainly policy-makers, practitioners, NGOs, think-tanks and researchers, including academic criminologists, and postgraduate students.



On national level the results were presented at a public discussion *Public Trust in the Criminal Justice System – an Instrument for Penal Policy Assessment*, organised by CSD on 11 May 2011. In her opening remarks the Law Program Director Dr. Maria Yordanova noted that the development and application of a system of indicators measuring the trust in the criminal justice responds to one of the priorities of the EU's Stockholm Programme for development in the area of security and justice for 2010 – 2014. She underlined the worrying trend that Bulgarians had the lowest levels of trust in both the state institutions and the



*Dr. Maria Yordanova (left) and Dr. Todor Galev during their presentation at the discussion Public Trust in the Criminal Justice System – an Instrument for Penal Policy Assessment*

system of criminal justice among all EU countries. Dr. Todor Galev, Senior Analyst at the Economic Program, presented the survey results and explained the main factors forming the public trust, noting that the extremely low rate of trust determines a situation of uncertainty and provokes fear of crime. Mr. Dimitar Markov, Senior Analyst at the Law Program, outlined several factors that affect negatively the public attitudes, namely, the lack of demonstration of cooperation among the institutions, the criticism which the criminal justice system receives by the country's European partners, and the failure of the judiciary and the police to deal with internal corruption.

## **II. Building capacity of the judiciary**

The development of an effective, accountable and transparent judicial system has

been a priority of the Law Program for more than a decade. After publishing several studies and strategic policy documents on judicial reform, last year the efforts of the Law Program focused on building the case management capacity of judiciary through the introduction of information technologies and performance indicators. Building upon its extensive experience both in the field of legal regulation of information technologies and in the area of judicial reform, CSD joined efforts with Adam Mickiewicz University (Poznan, Poland), Droit au Droit Association (Brussels, Belgium), and the European Public Law Organization (an international organization based in Athens, Greece) to foster the transfer of best practices in the application of e-tools for case management.

The initiative, officially launched in the end of 2010, started with a comparative analysis of current practices of justice

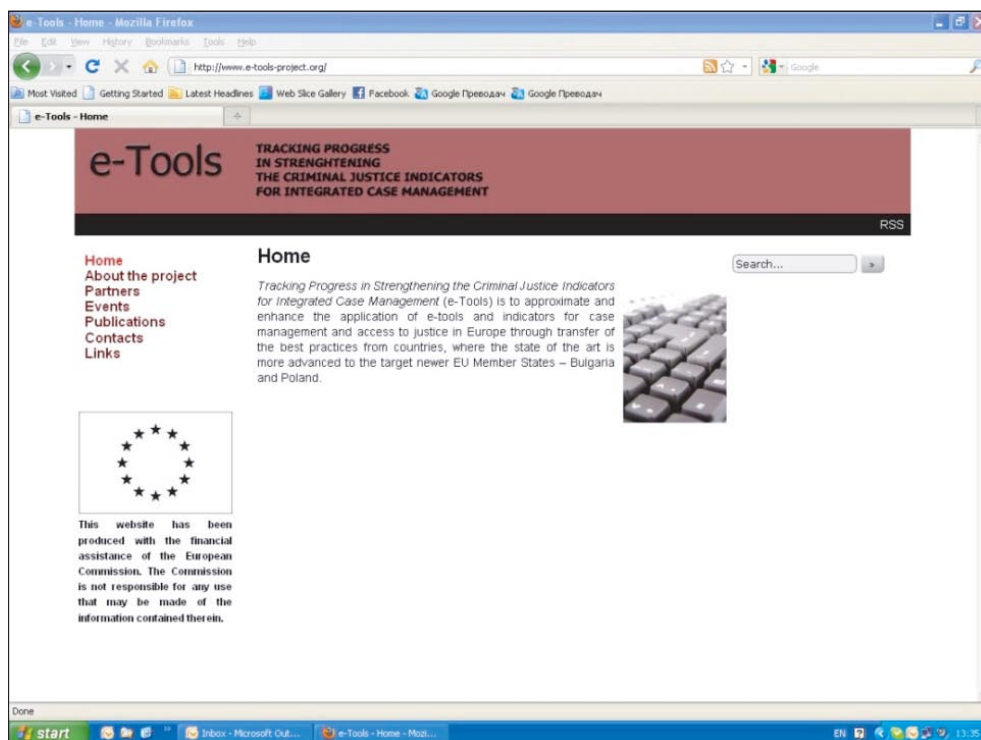
recordkeeping (paper and electronic) in selected European countries. The study included review of publicly available data, surveys and oral interviews with representatives of bar associations and managers from courts and prosecutor's offices, feedback from workshops and seminars, expert assessments, etc.

In the course of the work the partner organizations met in Poznan, Poland, to review the results achieved so far and discuss the upcoming activities and outputs. The meeting, held on 27 June and hosted by the Law Faculty of Adam Mickiewicz University, focused mainly on the progress of the research and the most effective strategies for the dissemination of results.

The results of the research were summarized in a compendium of best practices entitled *E-Tools for Criminal Case Management within Selected EU Member*



*States*. The collection, published as a multilingual CD, provides comparative analysis of current practice of justice recordkeeping and the electronic tools for measuring the performance of the judicial systems in several European countries (Finland, Belgium, Greece, Italy, Spain, England and Wales, and Germany) as well as an overview of the use of information and communica-





tion technologies in the judiciaries of Bulgaria and Poland.

To promote the advantages of the use of e-tools for efficient case management, the Law Program organised a targeted information campaign among the Bulgarian judicial and law enforcement authorities. Copies of the compendium were sent to a number of courts and public prosecutor's offices and other relevant institutions such as the Ministry of Justice, the Ministry of the Interior, and the Supreme Judicial Council. In addition, the Law Program organised three training seminars (one in Gotse Delchev on 17 November and two in Sofia on 25 and 30 November) bringing together judges, prosecutors and police officials to discuss the use of information technologies for case management.

To improve dissemination and ensure greater accessibility of the results, the Law Program developed a special thematic website ([www.e-tools-project.org](http://www.e-tools-project.org)), which was officially launched in March 2011. The website offers information about the partner organizations, reports from meetings and public events, downloadable electronic versions of relevant publications and useful links to other resources on the topic.

### III. Criminal law reform

#### Prevention of and fight against crime

The legal side of the prevention of and fight against crime is a traditional topic of the Law Program. After recently working on issues such as cybercrime, rights of crime victims, and criminal prosecution of drug-related crime, this year the Law Program focused its work on three other topics: organised crime, trafficking in children, and defendants' rights in criminal proceedings.

- In the area of organised crime the Law Program was involved in the work on the Bulgarian organised crime threat assessment (BOCTA), an initiative coordinated by the European Program. The Law Program's task was to do an analysis of the Bulgarian penal legislation, in particular the *Criminal Code* and the *Criminal Procedure Code*, and to identify weaknesses that affect the fight against organised crime and recommend solutions for their overcoming. The research methodology combined legal analysis of the existing legislative framework, literature review and interviews with representatives of all relevant institutions involved in the fight against organised crime. The results of the research were summarized in a report assessing the legal framework against organised crime in Bulgaria. The report, identified a number of weaknesses in the current legislation, including deviations from the internationally recognized standards and contradictory, unclear and inadequate provisions, which prevent the effective investigation and prosecution of cases of organised crime. The study recommended a number of concrete measures for legislative reforms aimed at improving the legal framework and creating a favorable legal environment for preventing and fighting organised crime.
- In the area of trafficking in children the Law Program team provided assistance to the Sociological Program by drafting a study on the legal and institutional framework for assisting and reintegrating trafficked children in Bulgaria. It provides an overview of the relevant laws and regulations, the applicable procedures for the provision of assistance to trafficked children, policy strategies and programs against

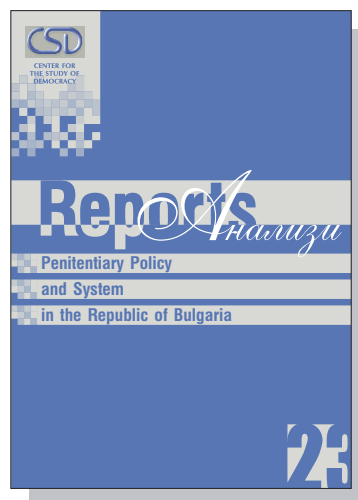
human trafficking, and governmental institutions and non-governmental organizations active in this field. The Law Program Research Fellow Ms. Miriana Ilcheva presented the report at an international workshop on child trafficking organised by CSD in Sofia on 12-13 December. The main findings and conclusions of the study will serve as the basis for developing a comparative study on the legal and institutional framework against trafficking in children in several EU Member States.

- In the area of defendants' rights the Law Program developed a country report on the right of defense in criminal proceedings in Bulgaria. It gives an overview of the Bulgarian judicial system and criminal procedure and explains in detail the roles and responsibilities of the public prosecutor, the defendant and the counsel for the defense in the course of the pre-trial proceedings and during the trial. The Law Program Director Dr. Maria Yordanova presented the main findings and conclusions of the research at the international conference *The Principle of Equality of Arms in the Context of the Pre-trial: the Defense Counsels Independent Investigations*, organised by the University of Salento and held in Lecce, Italy, on 20 June 2011. The report will be published in the law journal *Diritto Pubblico Comparato ed Europeo (DPCM)*.

### Reform of the penitentiary system

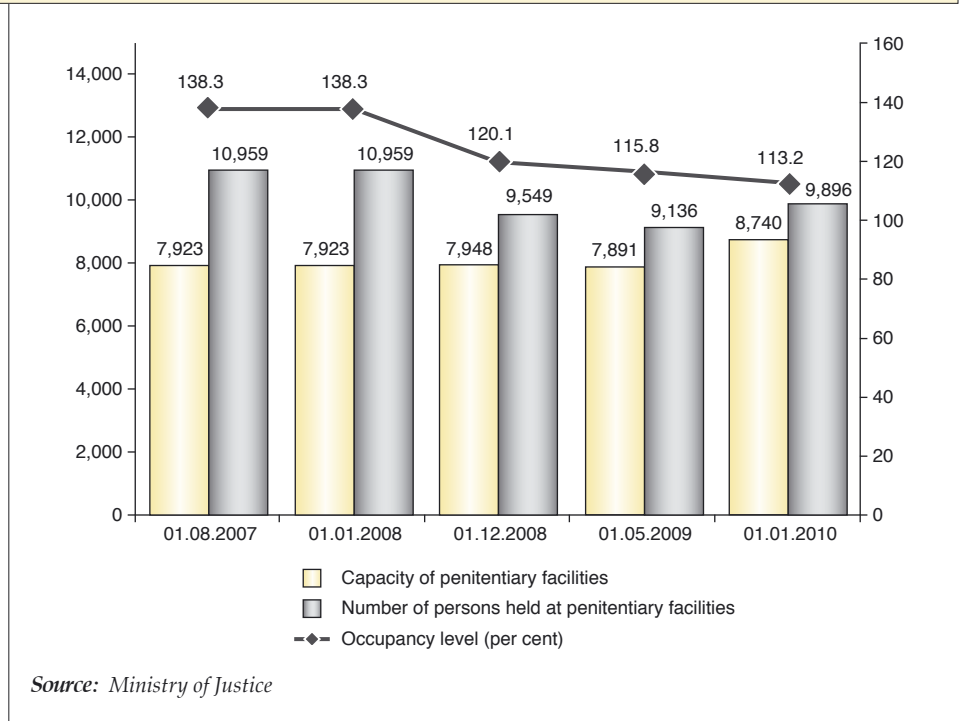
The Law Program continued to study the Bulgarian penitentiary system and the situation of inmates in Bulgarian prisons within the framework of a joint initiative of several research institutes from different European countries to assess the costs for crime repression and evaluate the role of prisons to prevent re-offending. The outcomes

of this initiative encouraged the Law Program to expand the scope of the research for Bulgaria and to produce a comprehensive study on the situation in Bulgarian prisons. The resulting report, entitled *Penitentiary Policy and System in the Republic of Bulgaria*, was published in April 2011. The book gives an overview of the Bulgarian penitentiary system and describes the existing problems in specific areas such as living conditions, employment, healthcare, social work, security and safety, etc. Special attention is paid to the situation of drug-addicted prisoners and the consumption of drugs in the prisons. The publication outlines several major problems of the prison system, including poor material conditions, overcrowded facilities, high level of unemployment, poor medical services, security deficiencies, shortage of financial and human resources, etc. All these problems affect the ability of the penitentiary system to effectively realizing its main purpose to re-educate offenders and prevent re-offending.



Examining the situation of drug users in prison the study concludes that the increasing share of inmates using drugs combined with the lack of adequate

**Figure 2. Occupancy level of penitentiary facilities for the 2007 – 2010 period**



medical treatment and post-release re-integration mechanisms makes drug consumption one of the most serious problems in the penitentiary system.

Based on the research results the report formulates a set of recommendations for policy, legislative and practical measures to improve the situation in Bulgarian prisons. To generate support for the implementation of these recommendations, the Law Program presented the study at a high-profile public discussion *Judicial Reform and the Execution of Penalties in the Republic of Bulgaria*, held in Sofia on 5 April. The event brought together officials from the Ministry of Justice, the Ombudsman of the Republic of Bulgaria, the Inspectorate with the Supreme Judicial Council, judges, pros-

ecutors and representatives of non-governmental organizations working in the field of execution of penalties to discuss the findings of the report and the suggested reform measures. The Minister of Justice Ms. Margarita Popova underlined that the penitentiary system is still not reformed and that the main conclusions and references from the report would become part of the future work of the Ministry of Justice. The Ombudsman Mr. Konstantin Penchev pointed out the necessity of independent monitoring over the Bulgarian penitentiary system done with the active participation of civil society organizations. The Chair of the Supreme Court of Cassation Professor Lazar Gruev underlined the importance of the publication for focusing the public



*The Minister of Justice Ms. Margarita Popova (right) and the Law Program Director Dr. Maria Yordanova during the presentation of the report Penitentiary Policy and System in the Republic of Bulgaria*

attention on the problems in the area of execution of penalties.

With its developed extensive expertise in the field of penitentiary system reforms, in 2011 the Law Program joined an international initiative aimed to reduce the phenomenon of radicalization in prisons by improving the dialogue with and between inmates with different religious background. Members of the Law Program team took part in three international workshops on religious radicalization in prisons (Istanbul, Turkey, 12.2.2011; Tirana, Albania, 8-10.7.2011; and Belgrade, Serbia, 21-21.11.2011) and contributed to the research by collecting and summarizing information about the legal framework of prisons in Bulgaria, the legal status of minorities, the ethnic and religious composition of the population, the major religions represented in the country, the profile of the prison

population, and the situation of imprisoned members of ethnic and religious minorities.

#### **IV. Monitoring racism and xenophobia**

Following up on its five-year experience in operating the Bulgarian National Focal Point of the EU Fundamental Rights Agency's Racism and Xenophobia Network (RAXEN), in 2011 CSD joined another anti-discrimination network called the Rights, Equality and Diversity (RED) Network. The RED Network is an independent research network composed of 17 research institutes and civil society organizations in EU Member States. It aims at critically recording and fighting stereotypes, which are the causes of racist and discriminatory attitudes, speech, actions and violent incidents.

The RED Network was officially launched at an international meeting on 9-10 May in Athens, Greece. During the meeting, where CSD was represented by Ms. Maria Doichinova, Program Assistant at the Law Program, the participants discussed the future work of the network, in particular the criteria for selecting which incidents to report, the appropriate ways of presenting the information and the most effective strategies to reach the relevant target groups.

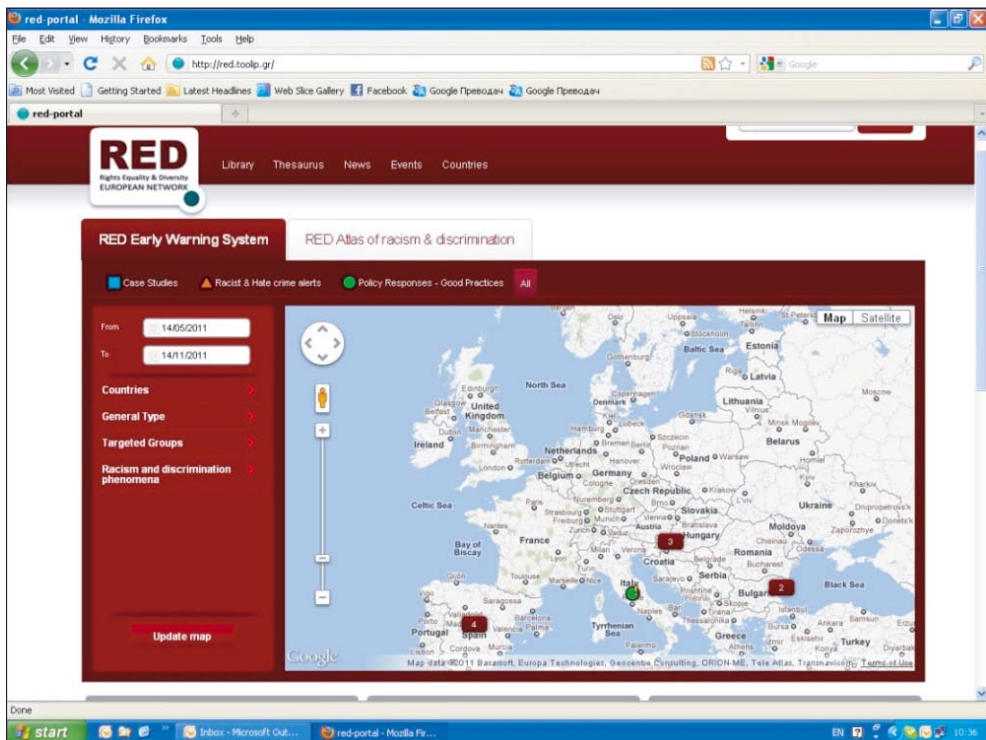
The RED Network's main outputs are the web portal and early-warning system (map-based and providing straight forward information to expert and other users) and the RED Atlas of racism and discrimination in EU.

The Law Program team is responsible for monitoring the situation in Bulgaria and inputting relevant data into the early warning system and the atlas. By the end of the year the several major incidents were reported and a couple of reports were uploaded in the web portal's library.

\* \* \*

In 2011, the Law Program continued to expand its international network of partners by searching for new counterparts and further developing the established partnerships.

In January and February the Law Program Senior Analyst Mr. Dimitar



*The interface of the RED Early Warning System and the RED Atlas of racism & discrimination*

Markov participated in a study visit to the United States where he met with representatives of governmental institutions working in the area of transparency and accountability, including US Department of Treasury, US Department of Justice, Government Accountability Office, Office of Government Ethics, Federal Election Commission, etc. During the visit useful contacts were established with US non-governmental organizations active in the field of good governance and anti-corruption such as Public Citizen's Congress Watch, Government Accountability Project, Citizens for Responsibility and Ethics in Washington (CREW), Center for Public Integrity, Transparency International USA, Citizens Against Government Waste (CAGW), etc.

On 16 June 2011, CSD joined the United Nations Convention against Corruption (UNCAC) Coalition – an international network of civil society organizations in over 100 countries, committed to promoting the ratification, implementation and monitoring of the UN Convention

against Corruption (UNCAC). The Coalition acts to facilitate the exchange of information among members and to support national civil society efforts to promote the UNCAC. With the adoption of an UNCAC review mechanism that started operation in July 2010, the Coalition works towards securing an effective, transparent and participatory monitoring mechanism for the Convention.

The Law Program Director Dr. Maria Yordanova represented CSD at the international training event on strengthening civil society capacity on the UNCAC and its review mechanism, organised by the United Nations Office on Drugs and Crime (UNODC) and the UNCAC Coalition on 2-4 February 2011 in Laxenburg, Austria. As a follow up, on 23 March the Law Program held a national training seminar to acquaint Bulgarian civil society organizations with the review methodology, the self-assessment and expert assessment opportunities, and the OMNIBUS software used for conducting the review.



# Economic Program

In 2011, the Economic Program focused on four key topics: energy security and sustainable development; hidden economy and anti-corruption; competitiveness and the knowledge economy; and the impact of the European Funds in Bulgaria.

## 2011 Highlights

- **Energy security and sustainable development.** The Economic program published a series of reports on the quality of energy governance in Bulgaria. These elaborated on the necessary policy measures for filling in governance gaps, such as in public procurement and for transitioning towards sustainable development.
- **Hidden economy and anti-corruption.** The Economic program published *The Hidden Economy in Bulgaria and the Global Economic Crisis*. A round table and a conference organized by CSD discussed the size and share of the hidden economy, bad practices in public procurement, the lack of transparency in the energy sector, the healthcare and pharmaceutical sectors, as well as the losses associated with VAT fraud.
- **Competitiveness and knowledge economy.** With the active participation of CSD, Bulgaria was included, for the sixth time, in the 2011 edition of the World Competitiveness Yearbook, published by IMD (International Institute for Management Development). According to the ranking, in 2011 the Bulgarian economy occupied 55<sup>th</sup> place out of 59, losing two positions compared to the 2010 results. CSD experts took part in the elaboration of the annual innovation performance assessment report *Innovation.bg 2011*.
- **Evaluation of the impact of the European Structural Funds on Bulgaria.** The Economic program prepared two analyses on the effects of the EU Structural Funds and in particular the European Fund for Regional Development (ERDF). The first report focused on EU fund's effects in the areas of renewable energy sources (RES) and energy efficiency of residential housing, while the second reviewed the overall effects of ERDF interventions.

## I. Energy security

Energy governance in Bulgaria faces multiple challenges of technical, legal and institutional nature. The review of the execution of Bulgaria's big energy infrastructure projects undertaken by

the government in 2009 – 2011 revealed serious problems in terms of governance. CSD's Economic Program continued its work on advocating for better governance and transparency in the energy sector. Its focus in 2011 was energy security and diversification. Through its



*Policy Forum Energy and Good Governance in Bulgaria: Trends and Policy Options, from left to right: Dr. Ognian Shentov, Chairman of CSD; Mr. Martin Dimitrov, Chairman of the Economic Policy, Energy and Tourism Committee at the National Assembly and Ms Tove Skarstein, Ambassador of Norway to Bulgaria*

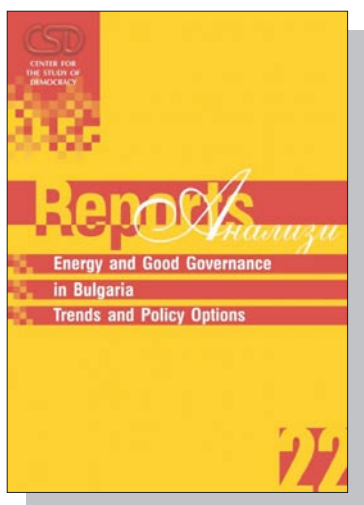
research, public awareness raising, the organization of multiple round tables and public discussions, as well as policy forums with national and international participation, the Center for the Study of Democracy has put these pressing issues into the spotlight of the country's public policy agenda.

A highlight of CSD's advocacy work on energy governance was the presentation of the report *Energy and Good Governance in Bulgaria: Trends and Policy Options*. The policy forum on the recommendations of the report took place on 18 January 2011 at the National Assembly of the Republic of Bulgaria. Among the panelists at the event were Mr. Martin Dimitrov, Chairman of the Economic Policy, Energy and Tourism Committee at the National Assembly, Mr. Traicho Traikov, Minister of Economy, Energy and Tourism, H.E the Ambassador of Norway and H.E the Ambassador of

Hungary in Sofia (the country holding the EU rotating presidency then), the Head of the International Secretariat of the Extractive Industries Transparency Initiative, Mr. Jonas Moberg, the Director of the Sofia Office of Konrad Adenauer Foundation Mr. Andreas von Below, representatives of the National Assembly and other stakeholders. H.E. Tove Skarstein, Ambassador of Norway to Bulgaria noted that, albeit slowly, Bulgaria had demonstrated tangible progress in improving the transparency of the energy sector. Mr. Traicho Traikov, Minister of Economy, Energy and Tourism pointed out that, for the first time in 20 years, energy decisions were subject to such an extensive discussion among experts as well as among the general public. Minister Traikov noted that the discussion of the proposal for the new energy strategy of the country was about to commence, which was indicative of the government's

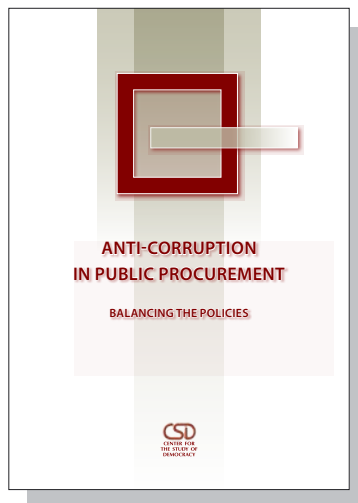


strong commitment to transparency. According to Minister Traikov, CSD's report clearly and accurately described the energy situation in Bulgaria. As the process of building a better governance structure is long, Minister Traikov stated that the government's efforts in 2011 would be targeted at the restructuring of the management of state energy companies, the balanced inclusion of renewable energy sources in the network, as well as the implementation of important national energy projects.



The report *Energy and Good Governance in Bulgaria: Trends and Policy Options* explores the major deficiencies in the strategic, institutional, and legal governance of the Bulgarian energy sector. The analysis of the management of state-owned energy companies and large energy infrastructure projects in the recent past reveals the disregard for even the most fundamental principles of accountability and control in their planning and implementation. This has affected negatively the Bulgarian taxpayers and consumers, has jeopardized the financial stability of the state-owned energy companies, and, ultimately, has reduced the energy security of the country. The report recommends that

the implementation of the large energy infrastructure projects be reconsidered and be based on a sound cost-benefit analysis with regard to Bulgaria's energy security.



The Center for the Study of Democracy and the Norwegian Institute of International Affairs (NUPI) organised a round table, on 26 May 2011 in Oslo, on the various aspects of good governance in the energy sector and in particular on anti-corruption policies in public procurement. NUPI and CSD presented their joint publication *Anti-corruption in Public Procurement: Balancing the Policies* during the round table. Among the participants were high-ranking Norwegian officials and experts as well as the Ambassador of Bulgaria to the Kingdom of Norway. The publication, available in English only, reviews the existing counteraction measures against corruption in the sphere of public procurement in Norway, Bulgaria and the EU. The area of public-private contracting presents high corruption risks everywhere in the European Union, and adequate measures should be taken to counter those risks. Only 1.6 % of the total EU public procurement market is won by entities



*Professor Bulat Nigmatulin, former Deputy Minister of Energy of Russia, in charge of nuclear energy, and currently First Deputy General Director of the Institute of Natural Monopolies, Moscow (left); and Mr. Ilian Vassilev, Former Ambassador of Bulgaria to Russia*

originating from another EU country, which in effect points to a dysfunctional internal public procurement market in Europe. The text of the publication enabled the Center for the Study of Democracy to prepare and submit to the European Commission an official position regarding the public consultation on the modernization of the European public procurement system.

The topic of Bulgaria's nuclear energy, post-Fukushima, was discussed during a round table, organised by the Center for the Study of Democracy on 31 May, 2011. Professor Bulat Iskanderovich Nigmatulin, former Deputy Minister of Energy of Russia in charge of nuclear energy, and currently serving as First Deputy General Director of the Institute of Natural Monopolies in Moscow, participated in the event.

Professor Nigmatulin pointed out that from a global perspective there cannot be any talk about a renaissance of nuclear energy because new projects are only in their infancy in fast developing economies such as China, and because of the growing phobia towards this type of energy in developed countries such as Germany. In his opinion, the cost of nuclear energy is extremely high in the former Soviet bloc and, in addition, economic growth is fully assured via the energy savings resulting from the use of modern technologies. This results in a negligible increase in the projected demand for new energy generation capacities. The central challenge to nuclear energy development in Russia and Eastern Europe, and to some extent in Bulgaria, is whether there will be enough customers for this type of energy.



*General James Jones, former NATO Supreme Allied Commander Europe and former National Security Advisor to President Obama (left) and Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy*

CSD hosted a round-table discussion on energy security on 28 July 2011. General James Jones, former NATO Supreme Allied Commander Europe and former National Security Advisor to President Obama, and Mr. Traicho Traikov, the Bulgarian Minister of Economy, Energy and Tourism, were among the distinguished participants.

General Jones acknowledged that the topic of energy security remained largely unnoticed in the general national security debate. He noted that there was a lack of a coherent US energy security strategy. The US energy portfolio is divided between 9 departments and 30 oversight committees and sub-committee, affecting the coherence of energy policies. Minister Traicho Traikov specified that in Bulgaria energy security and national security were

one and the same issue now. Bulgaria attempts to improve national (energy) security through investment in renewables, conventional and new technologies as part of a wider European effort to improve energy supply and economic competitiveness. The challenges that Bulgaria faces are that within the EU it is hardly possible to convince some (bigger) nations that they should give up part of their sovereignty in energy decision-making. Overcoming this is a prerequisite to common energy policy in Europe, which is of paramount importance to smaller EU member states such as Bulgaria. Participants in the discussion indicated that Bulgaria could benefit from a more proactive energy security policy, through clearly defining its own national energy projects rather than reacting to outside initiatives.



*Mr. Traicho Traikov, Minister of the Economy, Energy and Tourism (left) and Ms. Susan Sutton, Deputy Chief of Mission, U.S. Embassy*

The Center for the Study of Democracy organised a series of other events, dedicated to the topics of energy security and good governance in the energy sector.

- A round table at CSD on 10 March 2011 discussed the role of the Black Sea Region for the country's economic development and for security relations, including energy security within the European Union. A recurring theme in the discussion was the development of a common EU strategy and policy on the EU level on key security issues, and a more active participation of Bulgaria and Romania in its conception.
- The link between organised crime and energy security was discussed on 25 March 2011. Mr. Dimitar Georgiev, Deputy Minister of the Interior, opened up the event by touching upon the challenges that law enforcement bodies face with regard to the infiltration of organised crime into the energy market. Mr. Steve Harvey, Senior Expert, OC Networks Unit, Europol, gave a presentation focusing on three scenarios linked to the potential risks that the infiltration of organised crime into the energy sector of Europe might create.
- The Center for the Study of Democracy and the Institute for Energy at the Joint Research Centre (JRC) to the European Commission held a seminar in Petten, the Netherlands, to exchange experience in energy security research. The event, entitled "Gauging Energy Security: European and Bulgarian Trends", was held on 5 April 2011 and included topics on the modeling of energy policy in Europe, gas demand and



interconnectedness of gas networks in Europe, etc.

- Exchange of good practices on the application of foresight in the areas of energy and environment took place during the round table discussion “Environment and Energy Foresight: EU-China Cooperation”, organised by the Center for the Study of Democracy on 11 April 2011. The participants voiced the opinion that Bulgaria was at the threshold of renewing its energy generation capacity and faced important choices concerning the reduction of pollution, the construction of nuclear plants and the lowering of harmful emissions.
- The Center for the Study of Democracy hosted a seminar discussion on 18 April 2011 on sharing the experience with renewable energy sources (RES) from the US and some developing countries around the

globe. The key-note presenter at the discussion was Mr. Kumayl Khaleeli, VP Corporate Development and Strategy of “Suntrough Energy” – a California-based developer of solar thermal power plants in a range of developing countries in Africa, the Middle East, Asia, and Latin America.

- The Center for the Study of Democracy organised a round table on Bulgaria’s energy security in light of the experience of the new EU member states from Central Europe. The event took place on 28 April 2011.

During the course of 2011, the Center for the Study of Democracy has paid special attention to the link between energy security and sustainable development, as well as between the themes of climate change and renewable energy sources.

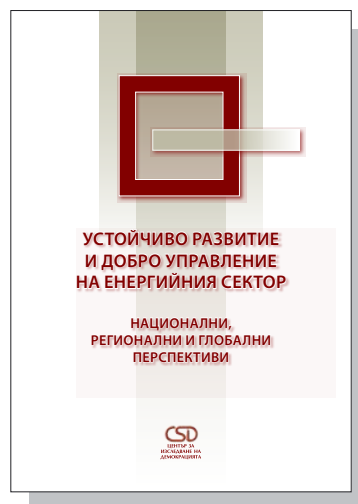


*The participants in the Policy Forum: The Costs and Benefits of Renewables on 26 April 2011*

The Center for the Study of Democracy hosted a policy forum on the costs and benefits of biomass as a renewable source of energy. Among the participants in the discussion on the 26 April 2011 were representatives from the German Biomass Research Center (DBFZ), the Association of Bulgarian Energy Agencies, the Institute for Green Policies, and others. Mr. Ruslan Stefanov, Director, Economic Program, Center for the Study of Democracy, opened up the discussion outlining the importance of the renewable energy debate in Bulgaria a week after the new *Law on the Energy from Renewable Sources* was voted by the Bulgarian Parliament. He underscored the importance of good governance for the proper development of a green energy mix in Bulgaria. Mr. Stefanov underlined that the debate in Bulgaria was too much focused on prices now than on their development in the next ten years. Though green energies are portrayed in the public as the main drivers of price hikes of electricity this is misleading and shortsighted, and fails to account for the changing international environment. Mr. Dietrich Becker, Deputy Chief of Mission, Embassy of Germany to Bulgaria, acknowledged the need for a new energy policy complementing the current policies based on fossil fuels. Mr. Becker underlined the need to consider the costs and the negative side effects from every energy source so as to make informed and transparent decisions.

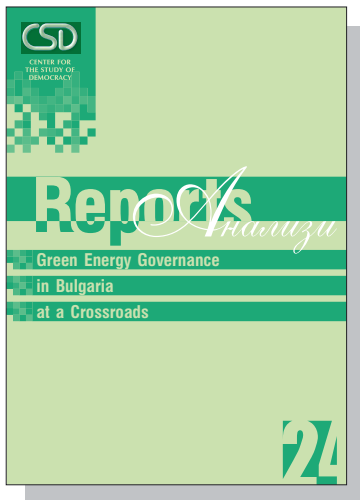
The reader *“Sustainable Development and Good Governance of the Energy Sector: National, Regional and Global Perspectives”* (available in Bulgarian only) is a continuation of CSD’s efforts to accommodate greater information flow to national institutions, energy companies and the general public with regard to sustainable development and good governance in the energy sector. The publication comes as a reminder that in order to

reach or sustain higher levels of high-technological development in a modern society, one needs to ensure (through appropriate management methods in each sector of the economy) secure access to affordably priced energy.



In 2011 the Economic Program of the Center for the Study of Democracy has also published the policy research report “Green Energy Governance in Bulgaria at a Crossroads”. The study presents a summary of the transition to sustainable development in Bulgaria, and offers policy recommendations for improving the governance of the Bulgarian green energy sector. Two major events – the gas crisis of January 2009 and the Fukushima nuclear disaster of March 2011 – have reshaped the thinking and rekindled the debate on the ways of achieving energy security and stability of supply in Europe. The analysis highlights the fact that Bulgaria faces serious problems when it comes to the accessibility of energy resources. The current low price of electricity for Bulgarian households comes from old, fully depreciated coal and nuclear facilities as well as an aging electricity network. Yet, when considered as a percentage of income per capita, elec-

tricity prices in Bulgaria are among the highest in Europe. The pressing need for renovation of the obsolete energy system puts the country in a difficult situation. Being a major importer of energy, Bulgaria has to make better use of the EU Structural Funds, as well as of European know-how and expertise, in order to prioritize energy efficiency and support for vulnerable consumers. This is essential because it is highly unlikely that the country would be able to exercise price control over the future liberalized energy market.



Representatives from the Economic Program participated in numerous international events on network building and experience sharing in energy and sustainable development. They also established contacts with a variety of institutions and partners, among which: Directorates-General (DG) Energy, DG Regional Development and DG Research and Innovation at the European Commission in Brussels; Foundation “ENI Enrico Mattei”, Milano; Extractive Industries Transparency Initiative; and Karita Research, Stockholm. The Center also became a member of the European Nuclear Energy Forum’s working group “Transparency”.

## II. Hidden economy and anti-corruption

The Center for the Study of Democracy continued, in the course of 2011, to work on the hidden economy and anti-corruption topics.

As a member of the Advisory Council to the National Revenue Agency (NRA), CSD provides recommendations for improvement of the national tax and insurance legislation, as well as for decreasing the current level of hidden economy.

The Center for the Study of Democracy and Friedrich Ebert Foundation organised a press conference on the topic “The Hidden Economy in Bulgaria after the Economic Crisis”. During the press conference at the Bulgarian Telegraph Agency on the 15 April 2011, CSD experts presented the results of the 2010 Hidden Economy Index. During the discussion a lot of questions were raised over the size and the share of the hidden economy in the country; the corruption in public procurement; the lack of transparency and oversight of the energy sector, health, and pharmaceutical sectors, as well as the losses from VAT fraud.





*From left to right: Ms Denitza Mantcheva, Policy Analyst at the Economic Program of the Center for the Study of Democracy; Mr. Tihomir Bezlov, Senior expert, European Program, Center for the Study of Democracy; Mr. Ruslan Stefanov, Director of the Economic Program of the Center for the Study of Democracy; Dr. Pencho Hubchev, Program coordinator, Friedrich Ebert Stiftung; Dr. Mark Meinardus, Director of Friedrich Ebert Foundation, Bulgaria and Mr. Todor Yalamov, Senior Analyst at the Economic program, Center for the Study of Democracy*

The experts also presented the dynamics of the various components of the 2010 Hidden Economy Index in the analysis “*The Hidden Economy in Bulgaria after the Economic Crisis*”. The policy research examined recent trends in the Bulgarian economic development and expected effects on the informal sector. The hidden economy has had a serious impact on private sector activities, the productivity and competitiveness of the workforce, on economic development and growth, as well as the social security and support systems of the country. The recent debt crisis in Greece has drastically exposed the need to better account for and to grasp the implications of the existence on large hidden economy on economic

performance. This has become even more pressing in the light of achieving Europe 2020 targets and calculating each country’s contribution to the European Stability Mechanism and the Euro Plus Pact. According to the analysis, the hidden economy in Bulgaria has increased among the business sector, while the opposite trend has been observed among the population.

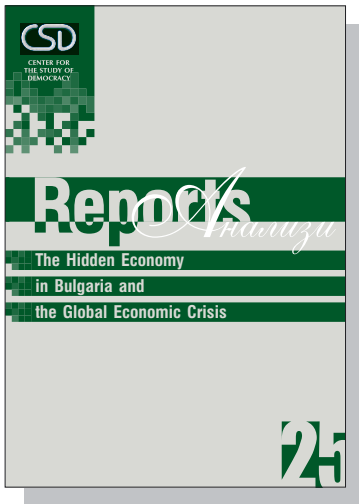
The authors have come to several overall conclusions:

- There has been a rise in the cases involving tax evasion, avoidance of customs fees and excise duties, as well as VAT fraud. As businesses have continued to suffer from the



recession, they have become more likely to not declare part of their revenue and economic activities;

- There has been a slight decrease in the incidence of undeclared payments – in 2010, 11.6 % of the population reported having received a remuneration higher than the one stated in the contract with their primary employer;
- Measures undertaken by the government to reduce the hidden economy do not seem to have produced the desired results;
- The general economic situation and development have been more important for the decline in the share of the hidden economy than government control measures.

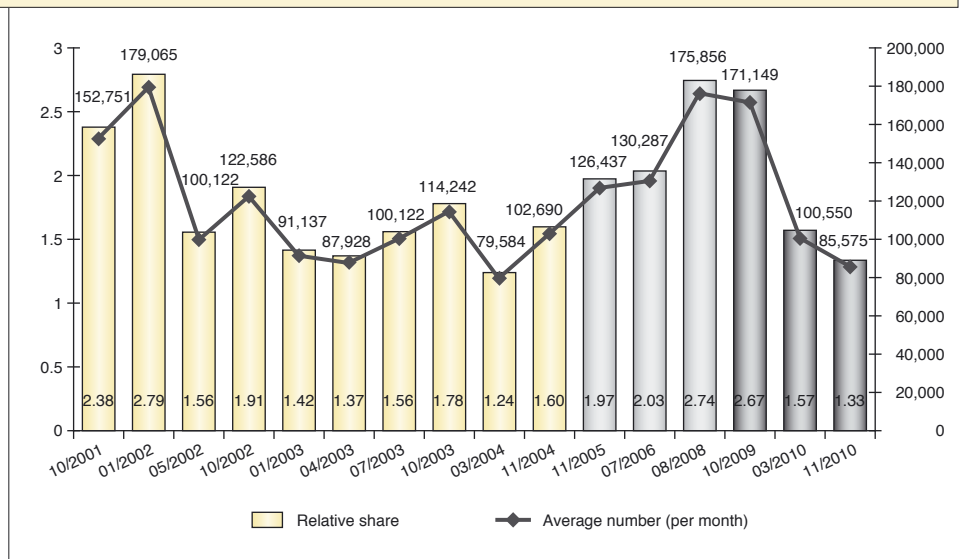


The Center for the Study of Democracy organised a press conference on 27 October 2011 to present its publication *“The Hidden Economy in Bulgaria and the Global Economic Crisis”*. The authors reviewed the effects of the global economic crisis on the labor market and undeclared employment, based on the data from the Hidden Economy Monitoring System. Taking into account relevant European and national experience, the authors of the publication

formulated specific recommendations for improving public policies, aiming at reducing negative effects of the hidden economy.

The Center for the Study of Democracy presented its thirteenth consecutive annual results from the *Corruption Monitoring System (CMS)* on 11 February 2011. Implemented since 1998 by the Center for the Study of Democracy and Vitosha Research, the CMS measures the actual incidence (corruption victimization) and dynamics of corruption in Bulgaria, but also assesses the attitudes and the perceptions of businesses and the population towards corruption. According to the CMS data, there has been a continuous decline in the corruption pressure applied by the administration onto the general population recently. The latter has, in turn, led to a drop in the level of corruption among the general population, thus, reducing the number of corrupt transactions from a monthly average of 171,000 in 2009 to 85,000 in 2010. Yet, despite citizen’s reduced susceptibility to corruption, the level of administrative corruption remains high. During the last three months of 2010, one in every ten Bulgarians, who have dealt with the public administration, resorted to bribing as a means to receive services. Unlike the general population, no decline in administrative corruption has been observed in the business sector. The number of bribes paid by businesses to the administration has been slightly higher in 2010, compared to 2009, while businesses have become more susceptible to corruption. The level of corruption in the business sector has still remained below its values prior to Bulgaria’s accession to the EU. Yet, during the last three months of 2010, one in every six firms that dealt with the public administration reported resorting to a bribe in order to receive a particular service or avoid penalty. The Bulgarian

**Figure 3. Involvement in corruption transactions (general population, average % per month)**



population still has a high tolerance for corrupt activities. About a quarter of the Bulgarian population has declared that they would agree to giving and/or receiving a bribe, while three fourths would not – whatever the circumstances. CSD and Vitosha Research experts have noted that the share of the population not willing to accept and/or offer a bribe should be about 90 % for a society to be considered corruption averse.

Based on the CMS methodology, the Economic Program developed a comprehensive national corruption survey, conducted in Bosnia and Herzegovina. The survey will be used as a basis for the elaboration of a Corruption Assessment Report, which is going to be presented during a policy forum in Sarajevo in the early 2012. The report would review the progress in corruption and anti-corruption in Bosnia and Herzegovina between 2001 and 2010, based on the CMS methodology.

The Economic Program continued its commitment to strengthening the governance of the Bulgarian civil society. CSD organised on 25 November 2011, in the city of Varna, a round table on the topic of “Civil Society in the System of Education and Culture”. The participants in the event discussed the findings of the analysis “National Community Centers (Chitalishta) – Reinstating Their Status in the Bulgarian Civil Society”. The analysis has proposed changes in the Law on Amendment and Supplementing to the Law on National Community Centers (Chitalishta).

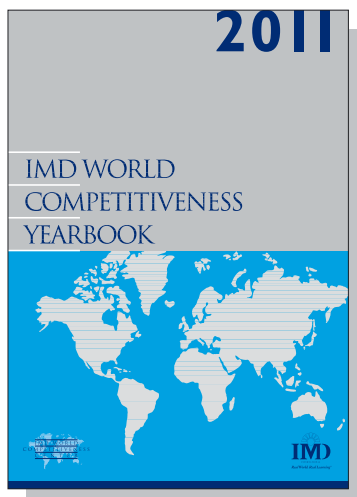
### III. Competitiveness and the knowledge economy

Experts from the Economic Program actively contributed in the preparation of the latest edition of the report *Innovation.bg 2011: Innovation Policy and Sectoral Competitiveness*. The study



provides a reliable annual assessment of the innovation potential of the Bulgarian economy and the state and development capacity of the Bulgarian innovation system. It puts forward recommendations for an improved public policy on innovation in Bulgaria and the EU, drawing on the latest international theoretical and empirical research, while taking into account the specific economic, political, cultural, and institutional framework in which the country's innovation system is operating. The 2011 report has raised awareness of the importance of innovation activities, as a factor for setting national priorities. The study has highlighted relevant developments on EU level, such as the initiation of the Europe 2020 Strategy for intelligent growth and the preparations for the 2014 – 2020 budget framework. For the first time, Bulgaria faces the challenge and the opportunity to define its new national innovation policy, participate in the formulation of the EU innovation policy and determine the programs and priorities of financial support from the EU for the next decade – all at the same time. The decisions and actions of the Bulgarian government in the development of the new EU financial perspective will determine whether in

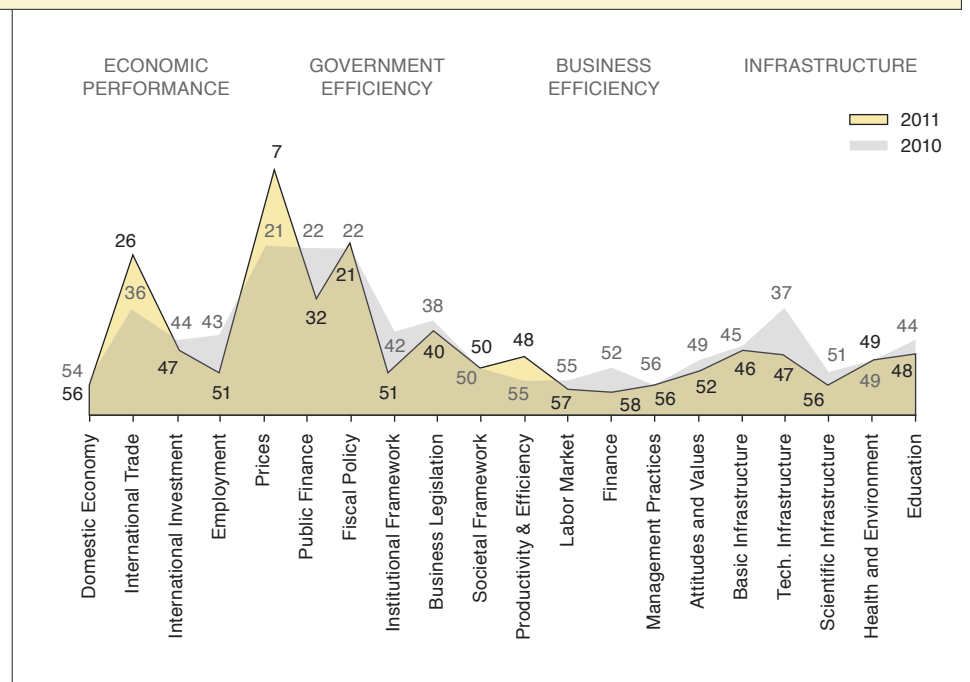
2020 Bulgaria will continue to be the poorest member state or will become a model to emulate. This year's report has also included two sectoral analyses on innovation systems (construction and energy) and has presented the results from their innovation activities.



In 2011 the Economic Program continued to monitor closely the relevant trends and factors, which shape the competitiveness of the Bulgarian economy and its development, compared to other economies. CSD presented the results of the 2011 IMD World Competitiveness Yearbook on 18 May 2011. The previous five editions of IMD's (International Institute for Management Development) publication have contributed to the formulation of competitiveness policies of the Bulgarian government, as well as to the creation of specific policy documents. International investors are closely monitoring the results of the Yearbook. In the latest edition, the Bulgarian economy occupies the 55<sup>th</sup> place, out of 59, in the country competitiveness ranking, thus losing two positions as compared to the results from 2010.

According to the ranking, in Europe only Greece (where the decline has been one

**Figure 4. The Competitiveness Landscape of Bulgaria, World Competitiveness Yearbook, IMD, 2011**



of the greatest – 10 positions), Ukraine and Croatia fall behind Bulgaria. The ranking is headed by Hong Kong and the USA, which have managed to get ahead of last year's leader Singapore.

Apart from low incomes and slumped domestic consumption, the Yearbook's competitiveness ranking has outlined problematic issues that Bulgaria has to resolve:

- the decline in employment levels, as well as long-term and youth unemployment;
- the drop in foreign investment inflows;
- the worsening of the scientific and technical infrastructure;
- the continued decline in education quality.

Next to the weaknesses, the competitiveness ranking captures the strengths of the Bulgarian economy. Improvements have been observed in the current account deficit, labour market flexibility and exports.

In continuation of its work on Bulgarian competitiveness, the Economic Program participated in and information seminar for journalists on the topic "EU against the Crisis", organised on the 11 February 2011 by the Information Office of the European Parliament in Bulgaria. Mr. Ruslan Stefanov, Director of the Economic Program at the Center for the Study of Democracy summarized the effects of the crisis on the European and Bulgarian economies. MEPs Mr. Ivaylo Kalfin and Ms Iliana Yotova, as well as Dr. Ingrid Shikova, Head of the



*From left to right: Mr. Ruslan Stefanov, Director of the Economic Program at the Center for the Study of Democracy; Dr. Ingrid Shikova, Head of the European Studies Department at St. Kliment Ohridski University; Ms Violeta Stanicic, Head of the Information Office of the European Parliament in Bulgaria and Mr. Ivaylo Kalfin, MEP*

European Studies Department at “St. Kliment Ohridski” University were the other speakers at the seminar.

A delegation from the China Center for World Contemporary Studies (CCWCS), headed by Professor Yu Hongjun, President of CCWCS and Vice Minister of the International Department of the Central Committee of the Communist Party of China, visited the Center for the Study of Democracy on the 25 May 2011. Professor Hongjun emphasized that in recent years Chinese researchers have paid special attention to the transition experience of the countries from the former Soviet Union and Eastern Europe. He mentioned two issues of particular interest: Bulgaria’s privatization and its impact on the nation’s economic development, and policies in the public health sector.

In 2011 the Center for the Study of Democracy presented its work internationally through the Stockholm Network. The Stockholm Network provides cooperation platform to more than 130 market-oriented European think tanks. Among others, the Network operates within the topics of competitiveness, energy, environment, intellectual property, and healthcare.

#### **IV. Evaluation of the impact of the European Structural Funds on Bulgaria**

The Center for the Study of Democracy is a member of the Consultative Council on EU Funds to the Committee on European Affairs and Oversight of the European Funds (CEAOEF) to the Bulgarian Parliament. It is also a part





*The delegation from the China Center for World Contemporary Studies (CCWCS)*

of the network for expert evaluation of EU Cohesion policy at DG Regional Policy. In 2011 CSD continued to monitor the influence and effectiveness of EU Funds in Bulgaria. Two separate analyses on the EU Structural Funds' impact have been prepared. These focused on the programmes, financed though the European Fund for Regional Development (ERDF).

The first report has evaluated the programmes, aimed at funding renewable energy sources (RES) and energy efficiency of residential housing. The ERDF support for these two areas of intervention has been restricted to 5.12 % of the total indicative funding available under this instruments to Bulgaria in the 2007 – 2013 budget period. Measures supporting the use of RES represent less than 3 % of the total Operational Programme (OP) "Competitiveness" and 4 % of OP "Regional Development" (OPRD). The support for energy effi-

ciency of residential housing is even scarcer. Nevertheless, ERDF support would be essential for reaching the objectives of improving energy efficiency and accomplishing 50 % saving of primary energy until 2020, which have been embedded in the Bulgarian Energy Strategy 2020.

The second report has reviewed all of the areas in Bulgaria, which have received support thought the ERDF. It has also commented on the 2011 mid-term evaluation of the EU Structural Funds. According to the analysis, Bulgaria has still been facing challenges in the implementation of the ERDF programmes. The report has provided several recommendations seeking to improve the impact of EU funds on Bulgaria's competitiveness:

- acceleration of payments towards beneficiaries;
- concentration on several key priori-

ties with clearly defined objectives and indicators;

- improvement of the evaluation system for OP implementation;
- enhancement of the OP's regional coordination and provision of the necessary operational tools (organizational capacity and financial resources) to the Regional Development Councils;
- improvement of the public procurement implementation procedures and the development of electronic application for handling of projects from all Operational Programmes.

## Sociological program

In 2011, the Sociological program, which in 2009 resumed its function as an autonomous structural unit within CSD, developed and implemented studies on key socio-economic fields at the national and European levels.

### 2011 Highlights

- **Policies for the integration of migrants and vulnerable groups:** The program developed methods and indicators to assess the results and impacts of policies for the integration of migrants. With its substantive knowledge of policy areas directly related to integration, in 2011 the Sociological Program expanded its scope of expertise by extending its analyses and research to other vulnerable groups and minorities.
- **Promoting and protecting human rights:** The Sociological Program applied qualitative and quantitative methods in studying human rights awareness and discrimination practices among Public Order Police officers in three regions in Bulgaria.
- **Prevention of Internet bullying behaviour:** The Sociological program, together with the Bulgarian Safer Internet Center (SIC – a section within the Information Society Program of the ARC Fund) participated in activities for preventing cyberbullying among youngsters by developing a common approach/tool which can help young people, school teachers, counselors or even parents when identifying the danger and risk associated with harassment and violent behaviour over the Internet.
- **Evaluation of public policies and programs:** The Sociological Program has enhanced its capacity to develop methods and indicators for the monitoring and evaluation of public policies in several key fields, such as migration and integration, justice and home affairs, and violence against children. Methodologies were prepared for Best Practices Evaluation and Social Impact Assessment and for Program Evaluation in the Field of Integrating Children – Victims of Trafficking.
- **Development of expertise within the Sociological Program and fostering institutional cooperation:** Experts from the Sociological Program have provided methodological support and have collaborated with external organizations in several key areas:
  - Participation in the Advisory Board to the Minister of Regional Development and Public Works.
  - European Police and protection of human rights.



## I. Policies for the integration of migrants and vulnerable groups

### Educational integration of refugee and asylum-seeking children

In 2011 the Sociological program continued working on the project entitled *Integrating Refugee and Asylum-seeking Children in the Education System in the Member States of the EU: Evaluation and Promotion of Good Practices* (INTEGRACE). Country reports and situation analyses for all Member States of the EU were prepared on the basis of the methodology for the identification of best practices, which was elaborated last year by the project experts. As a result of this endeavor a Handbook containing country reports and evaluation of current best practices will be published at the beginning of 2012. The project partners will discuss the handbook's content and structure during the

upcoming INTEGRACE workshop in December 2011.

The Center for the Study of Democracy organized a Capacity Building Seminar on the 18 and 19 of January as part of the INTEGRACE project. The aim of the seminar was to clarify methodological issues related to the preparation of the country reports, program evaluations and impact assessments to be conducted, and to present and discuss the most significant research findings so far. The participants in the seminar were Prof. David Ingleby of Utrecht University, Netherlands, Dr. Nando Sigona of the University of Oxford, Prof. Krystyna Iglicka of the Center for International Relations in Warsaw, Prof. Mati Heidmets, University of Tallinn/Integration Foundation, Estonia, Prof. Anna Krasteva of New Bulgarian University, Professor Ingegerd Rydin and Dr. Ulrika Sjöberg



*Capacity Building Seminar (INTEGRACE)*



*Capacity Building Seminar (INTERGRACE)*

from the University of Halmstad, Sweden, Dr. Giuseppe Roma – Director of the CENSIS Foundation in Rome, Italy, Anna Italia and Luigi Bellesi of CENSIS – Italy, Helmut Sax and Sabine Mandl of Ludwig Boltzmann Institute of Human Rights (BIM) in Vienna, and CSD staff including Professor Andrey Nonchev (project Coordinator), Nikolai Tagarov (Project Manager and seminar moderator), Dr. Mila Mancheva, Svetla Encheva, Kristina Georgieva and Mario Battaglini.

As part of the project, thirty-one country reports were prepared. The Bulgaria country report was prepared by the CSD experts participating in the project. The main conclusions and recommendations of the Bulgarian country report identified opportunities for policy and program improvement in the following key areas:

1. Access and enrollment
2. Quality of education
3. Enhanced protection
4. Empowerment and participation

#### **Access and enrollment**

A number of imperfections have been identified in the process of preparation

of RASC for school enrollment. They relate both to the structural and the methodological setting in place. The Bulgarian-language course and attendant study room organized at SAR are set to provide a solution to the educational needs of what is a small and dynamic group of RASC right upon their arrival in Bulgaria. While this setting suffers from a number of imperfections it can serve as the basis for a setting which could become a good practice. In the first place, the language course and the study room need to be separated and taught by different teachers as they serve different needs and target RASC of different standing – those who have just arrived in the country and those already attending school. While SAR can assure the structural setting, the finance and the on-going consultation with regard to RASC, in terms of methodology and study procedures the language course and the study room which is under SAR's operation need to be methodologically designed and supervised by professional educational institutions such as MEYS and the Institute for Foreign Language Training.

The Bulgarian language course needs to be designed in a way to meet the

**Table 1. Refugee applicants in Bulgaria by year and the share of children**

YEAR	N of refugee applicants	Women	Unaccompanied Minors	Children	Children %	Notes
1993	276			72	26.0 %	(UNHCR data shows 217 children for the years 1993 – 1994.)
1994	561			143	25.5 %	
1995	451			121	26.8 %	
1996	283	50		31	11.0 %	
1997	429	47		34	8.0 %	
1998	834	139		157	18.8 %	
1999	1349	293		308	22.8 %	
2000	1755	294		289	16.5 %	
2001	2428	343		460	19.0 %	
2002	2888	323		289	10.0 %	
2003	1549			193	12.5 %	
2004	1127		233	286	25.4 %	
2005	822		159	201	24.5 %	
2006	639		73	102	16.0 %	
2007	975	98	23	122	12.5 %	
2008	746	130	109	122	16.4 %	UNHCR data reports 13 unaccompanied minors.
2009	853		8	100	11.7 %	
2010	825		68	114	13.8 %	UNHCR data reports 22 unaccompanied minors

*Source:* SAR, UNHCR, Krasteva 2006, 182-183 (the table is under preparation with missing data being under request). Data on unaccompanied minors is being gathered by the State Agency for Refugees since 2004. Between 1993 – 2003 statistics made no distinction between accompanied and unaccompanied children.

requirements of the test. It should provide training in the Bulgarian language as well as refreshment training on the basic subjects included in the test. The diverse and dynamic profile of the group of RASC (on the average ten to fifteen children per session – of different age, nationality, period of attendance) is a challenge that could be met only by means of a specially designed training methodology developed by professionals and implemented by experienced and well trained teachers.

Procedures for school enrollment of RASC need adequate legal basis. The current legal provision of equal access to education for Bulgarian citizens and RASC does not provide a working solution to RASC enrollment at school – in fact it hampers adequate access to education. Reinstating the earlier MEYS Regulation N 3 (July 27 2000) should be seriously considered together with a number of improvements in the enrollment procedure. A uniform School Enrollment Test tailored to RASC needs to be developed and a pre-enrollment training course needs to be designed in accordance. Respectively, the training of RASC at the pre-enrollment level should be fully coordinated with this test.

### **Quality of education**

The quality of education provided for RASC in Bulgarian public schools could best be measured by the levels of attendance and performance of RASC at school – however, at present these are not monitored and there are no official or unofficial statistics being recorded. A number of factors should be taken into consideration when RASC school attendance and performance are discussed. Those factors concern the insufficient knowledge of the Bulgarian language, including the lack of knowledge of Bulgarian terminology in the various school subjects; the impossibil-

ity on the part of parents to help their children with school work; and the modest financial resources of RASC families (Topalova, 2009, 5-8). All these factors put RASC children in a vulnerable situation at school and demand the design of assistance programs to meet their specific needs, make them fully engaged in the educational process they are involved in, and ultimately contribute to improving the quality education of their education. A number of measures should be taken into consideration to improve the quality of education of RASC in public schools:

- the allocation of resource teachers for targeted consultations;
- the option of providing additional (individual) classes in Bulgarian.;
- consideration regarding the most appropriate language textbooks and study materials for foreign children;
- the provision of training in teaching Bulgarian as a second language to public schools teachers;
- the provision of translation and interpretation services to parents. The possibility of parents to communicate with school authorities is of crucial importance to the educational integration process of RASC;
- the hiring of school assistants with the knowledge of RASC's mother tongues (usually Arabic or Dari/Pashto) to serve as facilitators of communication between teachers and children who are in the process of learning Bulgarian;
- free supply of school materials to RASC pupils of all ages, including grants for the purchasing of clothes and pocket money for meals at school;
- support for teachers involved in teaching RASC. In particular, such teachers need to be provided with training courses in inter-cultural education to equip them with relevant knowledge of the cultural,

social and political contexts in their pupils' origin countries, and with adequate tools of communication to ease and maximize the effects of the training process.

### **Enhanced protection**

A general recommendation involves the need for improved protection of RASC at the pre-application stage. The period between detention and application registration involves a number of practices that affect the rights and the wellbeing of RASC. Those include cases of interrogation at the border without the presence of parents or legal representatives, prolonged registration of up to several months and accommodation at the Busmantsi immigration detention center, where children are subjected to a very restrictive regime with no freedom of movement. These practices contribute to the stress and trauma already experienced by RASC, and hinder their educational integration both in the short and in the long run.

It is highly recommended to introduce mandatory psychological support in schools where RASC are enrolled. According to the present legal framework only schools with pupils numbering over 500 are entitled to a school counselor. Schools with lower numbers of pupils (as was the case with the two schools visited by CSD experts) do not have funding for such services at their disposal.

Protection measures should be improved with regard to the most vulnerable group of RASC – namely, unaccompanied/separated minors. Improvements are needed in the legal and institutional mechanisms regarding the reception and integration of unaccompanied RASC. In accordance with the major reform policy of de-institutionalization of care services for children, efforts

should be invested in making possible the foster care for such children among co-nationals, or in different forms of accommodation that will take into consideration the safety and the best interest of such children. Another possibility might involve the establishment of a Child Care institution for unaccompanied RASC to provide services and protection tailored to their specific needs, including those related to education.

To ensure better protection from acts of xenophobia or racism in school, the relevant institutions need to design a long-term approach to providing know-how (through training) to teachers on inter-cultural education, group management and promotion of inter-cultural communication among pupils.

### **Empowerment and participation**

The present situation, given the lack of kindergarten attendance by RASC under the age of six, severely affects their chances for inclusion into the host society, and more specifically their adequate preparation for future educational integration. The impossibility to attend kindergarten makes RASC between in the 1-6 age group equally unprepared for school. It should be considered as a missed chance for empowerment both of RASC between one and six and of their parents. While RASC formally have the right to attending kindergarten, the present rules of access effectively disadvantage children of refugee applicants and refugees in the competition process and in effect deprive them of their right of access. The current Rules of enrollment of children in Municipal kindergartens need to be reevaluated with respect to RASC. Expert consultations need to be requested by RASC responsible institutions with officials at the Sofia Municipality to raise awareness of the problem and



initiate adequate amendments. Real access to kindergartens on the part of RASC will give their mothers the time to take part in the training and professional courses of the National Program for the Integration of Refugees. This in turn will ease their adaptation into the host society, improve their Bulgarian language proficiency, and increase their chances for employment.

The treatment of unaccompanied/separated RASC as far as access to education is concerned should be based on a more comprehensive approach which should take into consideration their age (majority – 71 % – of unaccompanied/separated RASC in the country are in the 16-17 age group), their experience, and their life-long needs. While most of these children have gone through experiences that would usually force them to mature early, they are expected to either study side by side with seven to eight-year-olds in initial grades of schooling, or to remain effectively enclosed in child care institutions with no possibilities for professional training or meaningful engagement with society. Specially tailored programs for unaccompanied/separated RASC of older age need to be considered, discussed and developed to engage them in professional training courses with the possibility of attending alternative forms of general education (evening schools, individual tutors or self-study arrangements).

It should be noted that some of the identified gaps in the present system are placed high on the agenda of the relevant institutions in Bulgaria. Specific measures are about to be taken to amend Law on Asylum and Refugees (LAR) and restore previously abolished regulations concerning the enrollment of RASC at Bulgarian public schools. The widening of the coverage of MEYES Regulation N 3 from 19 June 2009 on the right of foreign pupils from EU

and EEA countries to free additional Bulgarian language classes to the group of RASC is also forthcoming.

### **Reintegrating Children Victims of Trafficking (ARECHIVIC)**

In September 2010, the Sociological program was awarded a grant for the project entitled *Assisting and reintegrating children victims of trafficking: promotion and evaluation of best practices in source and destination countries*, in which CSD has been collaborating with the Ludwig Boltzmann Institute, Austria, the CENCIS Foundation – Italy, the People in Need NGO, Slovakia, the University of Pecs, Hungary, and **The Crime Victim Compensation and Support Authority**, Sweden. The project aims to assess the policies and progress relating to the rendering of adequate support and protection of trafficked children in three countries of destination (Italy, Austria, Sweden) and three countries of origin (Slovakia, Bulgaria, Hungary). The analysis will be based upon an established methodology for programme evaluation, which could be applied in other EU countries to guide and measure progress in implementing policies and strategies in this field. The identification of replicable best practices will contribute to long-term sustainable efforts in assisting trafficked children and fully reintegrating them into society.

Recognizing the importance of adequate support and protection of children victims of trafficking (hereafter referred to as VOT) for remedying the abuse, the *Assisting and reintegrating children victims of trafficking: promotion and evaluation of best practices in source and destination countries* (ARECHIVIC) project aims to assess the progress made in three countries of destination (Italy, Austria, Sweden) and three countries of origin (Slovakia, Bulgaria, Hungary) of trafficked children. Building on pre-

vious research in this field, such as the European Agency for Fundamental Rights report entitled *Child Trafficking in the European Union- Challenges, Perspectives and Good Practices*, the project aims to provide more in-depth analysis of the efforts made to assist child victims in their physical, psychological and social recovery. The analysis will be based upon an established methodology for programme evaluation, which will be grounded on internationally recognized principles and guidelines provided in the following practical instruments for victim support and protection:

- UNICEF Guidelines on the Protection of Child Victims of Trafficking,
- IOM Handbook on Victims Assistance,
- ICMPD Guidelines for the Development and Implementation of a Comprehensive Anti-Trafficking

Response,

- UNODC Toolkit to Combat Trafficking in Persons,
- FRA report on Developing indicators for the protection, respect and promotion of the rights of the child in the European Union.

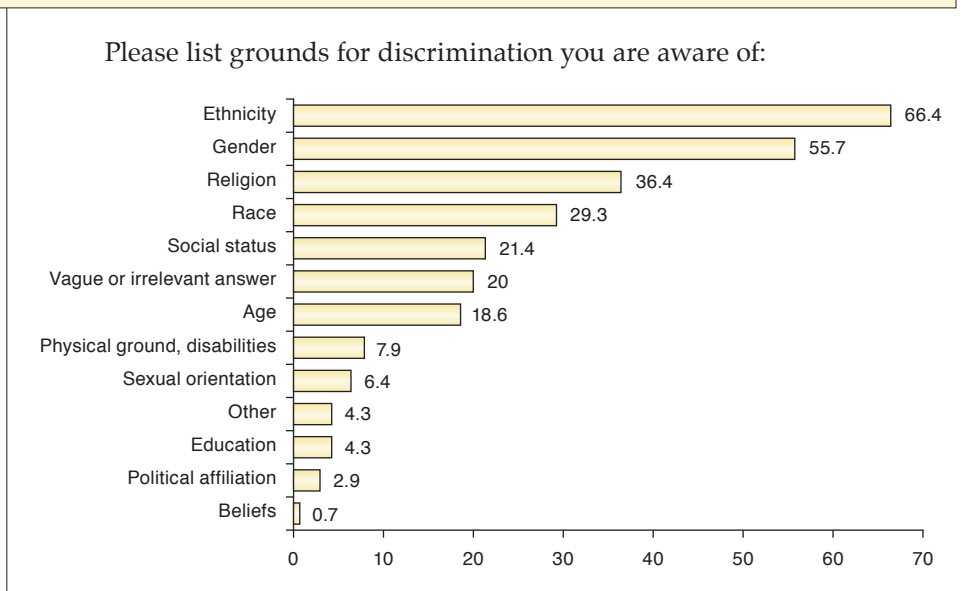
The first workshop with the ARECHEVIC project partners, on 12-13 December 2011, will focus on discussing background country reports and the design of the best practices comparative report.

## II. Promoting and protection of human rights

### European Police and Human Rights

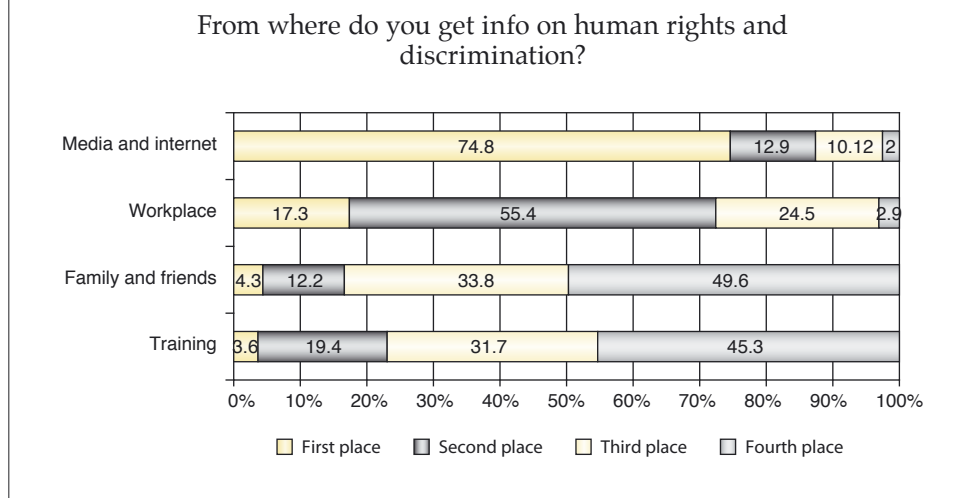
The Sociological program participated in the implementation of the *European Police and Human Rights* project, with

**Figure 5. Grounds for discrimination**





**Figure 6. Sources of information**



a focus on preventing discrimination by police officers. The project coordinator is the Ministry of the Interior – Bulgaria, GD “Public Order Police”, and the other partners are the Bulgarian Helsinki Committee, the Commission for Protection against Discrimination, the Belgian Federal Police, the Criminal Investigation Police, the Baden-Württemberg Police Headquarters (Germany) and the Warsaw City Police. The main objective of the project is to recognize the real challenges faced by police officers in terms of respecting fundamental human rights while they exercise their professional duties.

The project focuses on training, based on identifying the real problems in applying the standards of non-discrimination in policing. A “training the trainers” methodology will be developed with the participation of foreign partners, NGOs and government institutions, based on evaluating police practices and the attitudes of police offi-

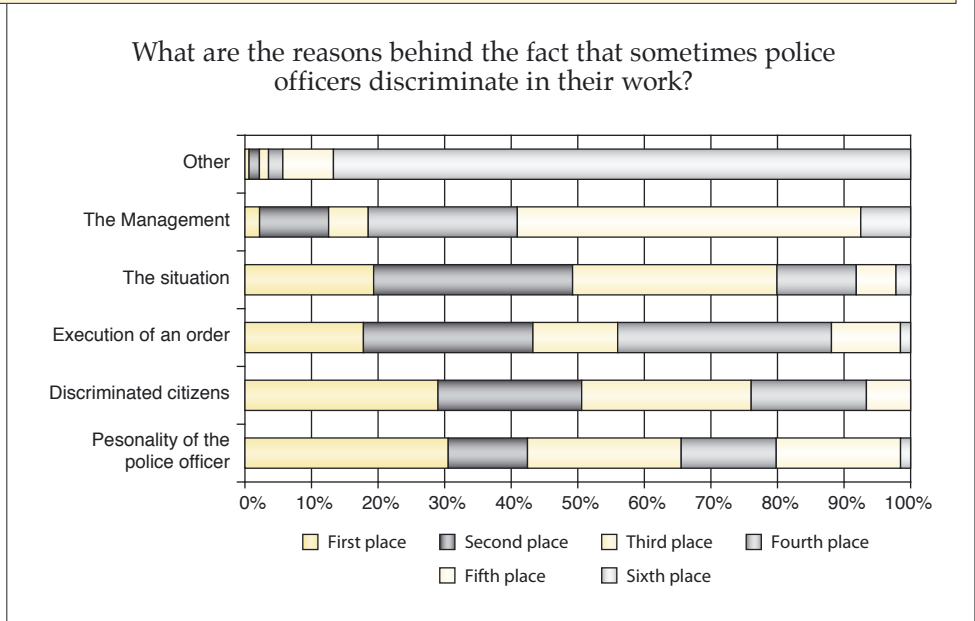
cers in Bulgaria, Poland, Germany and Belgium, with the option of application in partner countries and EU MSs.

The project aims to upgrade training practices and materials in this field. Its main objective is to establish and implement a practice oriented approach and to develop standardized training of trainers by setting up a joint partner team in order to ensure the EU dimensions of the training model and the subsequent police training.

A CSD team carried out twelve in-depth interviews with police officers and quantitative surveys with 151 police officers in the towns of Pernik, Pazardjik and Sofia. An analysis was prepared with the results of the interviews and the surveys.

The results of the surveys revealed that ethnicity and gender were the most recognized grounds for discrimination by police officers.

**Figure 7. Reasons for discrimination in the police**



The main sources of information on discrimination and human rights protection for police officers are media and the Internet.

The survey on police practices and equal treatment of citizens was the most challenging part of the research. The team expected some caution from the police officers in terms of providing information on discrimination. Although the policemen' responses confirmed to some extent these expectations they were more inclined to admit that discrimination was exerted upon citizens by police and it could be a result of insufficient commitment to the problems of ethnic minorities.

When there is an act of discrimination, according to the interviewed policemen, it is often provoked by – discriminated citizens themselves, particular situa-

tions, or personality of the officer. A number of officers considered that a policeman 'builds a character' during his professional life and "self-training" and training they may receive will contribute to the overall awareness of the significance of protecting the human rights of all citizens.

It should be noted that the policemen are more inclined to choose positive measures to prevent acts of discrimination. The training is one of the most desired instruments against discrimination among all respondents.

### III. Prevention of internet bullying behaviour

The Sociological program, together with Bulgaria's Safer Internet Center (SIC – a section within the Information Society

Program of the ARC fund, which forms part of the CSD group) became a partner in the project entitled *Threat assessment of bullying behaviour in Internet* which is being implemented in Italy, Cyprus, Greece, Bulgaria and Hungary. The coordinator is the Department of Psychology of the Second University of Naples. The other partner organisations are the University of Cyprus, the Aristotle University of Thessaloniki-Greece, Chiamamilano – Italy, and the ESZTER Foundation – Hungary. The TABBY project aims at preventing cyber-bullying among youngsters by developing a common approach/toolkit which can help young people, school teachers, counsellors or even parents when identifying the dangers and risks associate with Internet harassment and violent behaviour.

Some of the key project activities are:

- Preparing a self-assessment tool (checklist TABBY) for youngsters (beneficiaries) but also for relevant adults to establish the level of risk of threats received (and performed), to be translated in each participating country's language;
- Creating a whole toolkit (TABBY in Internet) in electronic format for assessment of risk of cyberbullying and of threats for youngsters themselves but of use also for teachers, counselors and school officers to be distributed in schools;
- Preparing an accompany guide for teachers, school counselor on cyberbullying, cyber threats and sexting with relevant video with cases and some examples which can be used in the EU countries and in several schools. The guide will be in English translated in each EU participating country language;
- Training teachers, counselors and school officers in the use of the TABBY kit.

A CSD and SIC team has carried out two focus group discussions with pupils from four Bulgarian schools and one focus group discussion with teachers. The children participating in the focus groups were in the 15-16 and 10-11 age groups.

Some of the students participating in the focus group with the older children admitted that they have been victims of various forms of cyber bullying, among which are:

- public humiliation via hate speech, photoshopped pictures, etc.
- account/identity theft
- various forms of sexting
- offers to make pornographic videos
- offers to meet adult strangers who pretend to be children (“pedophiles always say they are exactly your age”)
- stalking and harassment via Skype and social networks

Children have different views about how such behaviour is treated by Bulgarian laws. Some of them think it is a criminal offence while others disagree (in Bulgaria it is in fact not a criminal offence). They consider that some form of punishment is needed, but have different opinions on what the punishment should be. Some believe that the perpetrator should face criminal charges while others think that he/she should receive help from a professional psychologist or counselor.

According to the younger pupils (11-12 years old) participating in focus group discussions, it is good to talk to one's parents in order to protect oneself, but not all of them trust their parents enough and in many cases the parents have less computer literacy than their children. Most children have their parents as Facebook contacts but don't like their parents' control over their online

behaviour. They think they are safe if they don't share private information on the net and if they don't meet strangers without their parents' permission or that of another trusted adult.

Compared to the 15-16 old participants in the first student focus group, the participants in the group with the 11-12 years old children had much clearer knowledge of how to report anyone's bullying behaviour on Facebook. They seem to have much more experience with cyber problems – at this age children are more active users of the social network; in a few years they won't find this as interesting.

#### IV. Evaluation of policies and programs

Over the past two decades, the theory and practice for assessing policies and programs has developed dynamically in a variety of territorial and institutional contexts. International institutions and organisations (the European Commission, the Organization for Economic Cooperation and Development, the World Bank, the United Nations Development Program, UNICEF, and others), national governments, and civil society organizations have increasingly been resorting to the use social evaluation of policies, programs, and projects of varying nature and scope. In this context, the Sociological Program has been building up its expertise and methodological capacity for carrying out social impact assessments of public policies and programs at the national and European levels.

In 2011 the CSD team developed *General Methodological guidelines for Best Practices Evaluation and Social Impact Assessment* as part of the INTEGRACE project. The proposed Guidelines were developed in accordance with two of

the INTEGRACE project objectives and are a key step towards their fulfilment:

- Enhancing the effectiveness of policies and programs for the integration of refugee and asylum seeking children in the EU;
- Developing analytical tools for the evaluation and impact assessment of programs and policies for the integration of refugee children at schools.

The methodological guidelines aim to develop a common approach to the evaluation of good practices in the educational integration of refugee children in the Old Member States (Austria, Italy and Sweden), and to the social impact assessment (SIA) of potential initiatives in the New Member States (Bulgaria and Slovenia).

The guidelines have several main goals:

- To define the objectives and the rationale of the evaluations and SIA of the best practices in the field of educational integration of refugee and asylum-seeking children (RASC);
- To outline the general design of the evaluation and SIA of best/good practices in the educational integration of RASC;
- To propose the content of the national reports on the evaluation and SIA research.

The rationale for the evaluation and social impact assessment exercises lies in the need to explore the possibility of transferring good practices in the educational integration of RASC from one specific national/local environment to another. The main purpose of the evaluations of existing best practices in the three Old Member States (Austria, Italy and Sweden) is to analyze to what extent and under what conditions they

could be replicated in a different context. The principal aim of the SIAs is to assess the possibility of replication and the social impacts of the eventual implementation of a practice which has already been identified and evaluated as a good one in some of the Old MS. The main goals of the two analytical exercises include:

- facilitating the transfer of knowledge from Old to New Member States, thereby allowing the latter to deal more effectively with the new migration realities;
- providing the grounds for developing a common EU approach to addressing the educational needs of refugees via conducting methodologically thorough and standardized evaluations and impact assessments.

The main questions the evaluation and SIA research should answer will be: could the practice under consideration be transferred to different national/local environments? What should be the preconditions for the practice to be replicated successfully in different national and/or local contexts?

Based on the identified best practices and areas in need of improvement, and on the drafted Methodology, the INTEGRACE project teams developed three evaluations of selected initiatives in three Western European EU Member States (Austria, Italy and Sweden) and two social impact assessments for their implementation in two Eastern European countries (Bulgaria and Slovenia). A comparative report based on the assessments conducted is under development. The report will provide an analysis of the effectiveness of the proposed methodological tools as a critical step in the process of identification and transfer of best practices across the diverse national contexts of the EU.

Within the ARECHIVIC project framework, the team of the Sociological Program developed a Methodology for Programme Evaluation in the Field of Integration of Children – Victims of Trafficking (VOT).

The methodology will aim to provide a toolkit for in-depth assessment of the degree of compliance of MS with international standards and practical guidelines in this field, and to provide guidance on how the process of policy formation and implementation can be evaluated using measurable indicators.

The overall objective of the methodology for assessing programmes for assistance and reintegration of children victims of trafficking is to increase the effectiveness of programme implementation throughout the European Union and to promote EU-wide evaluation standards in the field;

The specific objectives of the methodology are to provide guidance in:

- Assessing the degree of *compliance* of the goals and objectives of the programmes for assistance and reintegration of children VOT with international legal standards and guiding principles
- Evaluating the *process* of implementation of programmes for assistance and reintegration of children VOT, including stakeholder involvement and the provision of adequate funding
- Evaluating the *results* of national programmes for assistance and reintegration of children VOT in line with established measurable indicators
- Assessing the *monitoring mechanisms* of programmes for assistance and reintegration of children VOT
- Determining the extent to which the *preconditions* to effective assistance to children VOT have been put in place

- Assessing the outcomes of *programmes for interim care* and protection of children VOT in line with measurable indicators
- Assessing the outcomes of *programmes for the reintegration* of children VOT in line with measurable indicators

The six ARECHIVIC project teams are currently conducting program evaluation studies in the national contexts of Austria, Bulgaria, Hungary, Italy, Slovakia and Sweden.

\* \* \*

The Sociological program has been providing sociological expertise (mainly of a methodological and analytical nature) in the development of research methods and instruments, the collection and analysis of data, the application of

advance research techniques and tools. In 2011, the Sociological program provided such expertise in conducting both quantitative and qualitative research (a survey, in-depth interviews and focus group discussions)

Experts from the Sociological program took part in a number of governmental, civic and academic initiatives and forums, among which were:

- Participation in the Advisory Board to the Minister of Regional Development and Public Works – a body for consultations, cooperation and dialogue for the purpose of achieving transparency in public policy;
- Participation in a project coordinated the General Directorate “Public Order Police”, related to anti-discrimination and human rights attitudes among the police officers.



## European program

In 2011, the European Program focused on its already traditional areas: (1) analysis of organised crime markets in Bulgaria and development of a methodology and report on organised crime threat assessment; (2) study on the dynamics and trends of conventional crime in Bulgaria; (3) national and international security issues; and (4) studies on security and interaction among institutions securing border control at the external borders of the EU.

### 2011 Highlights

- **Organised crime threat assessment in Bulgaria, the Balkans and the European Union.** CSD in cooperation with the Customs Agency held an international conference focused on countering cigarette smuggling in the Balkans, participants at which were high ranking civil servants from the Ministry of Finance, Ministry of Interior, as well as the Customs administrations of the Balkan states. A thorough study was conducted on the Italian policies related to countering mafia and practices on confiscation and administration of assets from criminal activities, and a reader, *Antimafia*, was compiled and presented at an international seminar.
- **Monitoring and prevention of conventional crime.** The completion of the 2010 National Crime Survey marked the 10<sup>th</sup> year since the first such survey was carried out. The accumulation of data enabled the publication of an analysis of the dynamics of conventional crime in Bulgaria covering the period 2000 – 2010.
- **National and international security.** A public discussion was held on National and International Security in the 21<sup>st</sup> Century. The participants made an assessment of newly emerged threats such as cyber terrorism, energy security, the link between organized crime and international terrorism, etc.
- **Expanding research areas.** After the successful completion of the study on the link between corruption and organised crime in the EU, in 2011 the European Program carried out another EU-wide study focusing on best practices in the cooperation between border guards and customs administrations working at the external borders of the European Union. Currently the European Program is working on a study of anti-corruption measures in EU border control in all 27 Member States.

## I. Organised crime threat assessment

The years following the transition were characterized by the lack of a long term strategy with regard to law enforcement bodies in their efforts to counter organised crime. Furthermore, it became apparent that they were incapable of enforcing their preventive and repressive powers due to inadequate information and insufficient analytical resources to prioritize the threats posed by organised crime and to evaluate the effect of the undertaken measures, political initiatives and strategies. This ineffectiveness allowed many “illegal entrepreneurs” to turn into “respected businessmen”.

Over the last decade countering organised crime has become a priority in most western countries. Most of the efforts were directed towards receiving adequate information regarding organised crime threats. As a result policies

focusing on countering organised crime were developed on the basis of detailed strategic analysis. They take into consideration not only the current situation regarding organised crime but also the risks and threats it generates. Thus they became the basis for the development of midterm and long term measures which are applied by law enforcement bodies and are leading in formulating the priorities of their operative activities as well as the patterns applied in collecting intelligence and operative information.

In this context, the European Program directed its attention to studying and analyzing crime markets in Bulgaria. A series of round tables and seminars were organised to collect data and exchange best practices.

The Center for the Study of Democracy held a round table on *Organised Crime and Energy Security* on 25 March 2011.



*Round table Organised Crime and Energy Security, from left to right: Mr. Tihomir Bezlov, Senior Analyst, CSD; Mr. Dimitar Georgiev, Deputy Minister of the Interior; Lt. Gen. (Ret.) Chavdar Chervenkov, Director, European Program, CSD*



*Organised Crime and Energy Security round table: Mr. Steve Harvey, Senior Expert, OC Networks Unit, Europol*

Mr. Dimitar Georgiev, Deputy Minister of the Interior, pointed out the challenges that law-enforcement bodies face with regard to infiltration of organised crime into the energy market.

Mr. Steve Harvey, Senior Expert, OC Networks Unit, Europol, gave a presentation focusing on three scenarios with regard to potential risks that the infiltration of organised crime into the energy sector of Europe might create. Mr. Harvey pointed out that organised crime activity in the energy sector and especially in the newly emerging market niches for alternative energy sources is a new area for law enforcement. Investigations are carried out only upon detection of criminal activities and there is lack of prevention as in the cases of traditional crime areas such as countering illegal drug trafficking and prostitution.

Mr. Tihomir Bezlov, Senior Analyst at CSD, made a short presentation on the

current organised crime situation in Bulgaria and its specifics in the energy sector. The problems faced by the Bulgarian energy sector and ensuing risks of organised crime penetration stirred a heated discussion among the attending experts representing various governmental institutions, think-tanks and law enforcement bodies. Different aspects of the energy markets were outlined along with measures that need to be taken in order to better match the changing environment and adequately counter organised crime.

Official as well as unofficial assessments define the illegal cigarette market as one of the markets causing the most serious damage to the budget. In order to receive an objective and precise assessment of this phenomenon on 2-3 June 2011 CSD and the Customs Agency carried out an international conference entitled Counteracting Cigarette Smuggling in the Balkans in Sheraton Hotel, Sofia.



*Participants in the conference Counteracting Cigarette Smuggling in the Balkans*

Participants in the conference included Mr. Simeon Djankov, the Deputy Prime Minister and Minister of Finance, officials from the Ministries of Finance and Interior, along with the general directors and senior officials from the customs administration of Bulgaria, Turkey, Greece, Macedonia, Serbia and Romania and representatives of Japan Tobacco International offices in Bulgaria, Turkey, Greece, Macedonia, Serbia and Romania, representatives of OLAF and Taxation and Customs Union Directorate-General of the EC, representatives of cigarette companies British American Tobacco, Philip Morris International and Bulgartabac Holding.

Dr Ognian Shentov, Chairman of CSD, stated that joint actions are needed for countering of the gray economy. The raise of the excise tax on cigarettes in 2010 led to a higher demand for illegal cigarettes, thereby causing an increase in cigarette smuggling. The CSD annual

Gray Economy Index shows that in 2009 there was a decrease in illicit cigarette trade. In year 2010 there was a surge of illicit trade in cigarettes though it is accompanied by an increase in seized smuggled tobacco products. The people involved in illicit cigarette trade are targeted by organised crime and then involved in other criminal markets, thereby increasing the social impact of such activities. This makes the cooperation between law enforcement, customs administration and the private sector crucial for combating this type of crime. The police and administrative measures have to be supported by sound management of the excise policy.

Mr. Simeon Djankov, Deputy Prime Minister and Minister of Finance, said that in times of economic crisis consumers tend to revert to the gray markets due to their tighter budgets and limited purchasing power. The tendency is reversed when the economy picks up.





*Conference Counteracting Cigarette Smuggling in the Balkans, from left to right: Mr. Kent Brown, Vice President, JTI; Dr. Ognian Shentov, Chairman, Center for the Study of Democracy; Mr. Simeon Djankov, Deputy Prime Minister and Minister of Finance*

Mr. Djankov stated that the excise tax on cigarettes was increased in light of Bulgaria's EU commitments and also taking into account healthcare considerations. Current research reveals that 4.3 % of the Bulgarian population have quit tobacco use as a result of cigarettes price increase in 2009. These unpopular measures aim to tackle inflation and keep the current excise tax on cigarettes until 2015. Mr. Djankov said that the legislative changes, including the draft act restoring the investigative powers of the Customs Agency, aim to strengthen the efforts in combating cigarette smuggling. Enhancing the technological capacity of the customs authorities through purchasing of scanning equipment has also affected positively the size of smuggled cigarettes. The Minister of Finance emphasized the importance of the cooperation between all EU Member States and the European Commission for combating cigarette smuggling.

The current problem is that the flow of cigarette contraband has changed its source from east to south, which means that the biggest amount of smuggled cigarettes enters Bulgaria through its southern border. Almost 70 % of the cigarettes seized by the customs administration enter the country through internal EU borders, mostly through the border with Greece, pointed out Mr. Vanio Tanov, Director of the Customs Agency, whereas only 3 % through the border with Turkey. Another interesting tendency shows that the strong control of the land borders has led to an increase in illicit activities along the sea border. Mr. Tanov emphasized the importance of the establishment of mobile units, which can cover the whole country and all international transport routes. The importance of the utilization of modern technologies for surveillance and control was also stressed by Mr. Tanov. The acquisition of additional scanners

would increase the effectiveness of the routine work of the customs administration. In the field of information exchange the Bulgarian customs administration cooperates with the customs agencies of other EU Member States as well as with the respective authorities in Turkey. The establishment of a joint customs and police center on the borders with Greece, Macedonia and Serbia would further enhance information exchange. The private sector support with expert analysis was described as especially valuable by Mr. Tanov.

Presentations on problems related to cigarette smuggling as well as measures undertaken at national levels were given by Ms. Aggeliki Matsouka, Head of Section B, 33-rd Customs Control Division, Ministry of Finance of Greece, Mr. Ljubisa Dimovski, Intelligence Department, Customs Administration, Republic of Macedonia, Mr. Slobodan

Nikolic, Deputy Director General, Customs Administration, Republic of Serbia, Ms Camelia Dima, Head, Risk Management Office, Surveillance of Excise and Customs Operations Directorate, National Customs Authority, Romania and Mr. Mehmet Guzel, Deputy Director General, Customs Enforcement DG, Undersecretariat of Customs, Republic of Turkey.

Mr. Stefan Shlaefereit, Vice President, Anti-Illicit Trade Global Strategy, JT International, responsible for the strategy for tackling illicit cigarettes trade touched upon the need of closer cooperation between the private sector and customs authorities in countering cigarette smuggling and trade in fake ones, and their regulation through legally binding agreements or memoranda of understanding. He emphasized the global scale of illicit trade in cigarettes as well as some new trends in the dis-



*Conference Counteracting Cigarette Smuggling in the Balkans, from left to right: Mr. Kristian Vangrieken, Head, International Cooperation Unit, DG Taxation and Customs Union, EC; Ms. Diane Scarlett, Head of Operations, OLAF*



tribution of fake tobacco products of JT International. In conclusion he pointed out that illegal trade causes losses not only to cigarette producers but also to national budgets in the form of uncollected revenues which calls for closer cooperation among the respective institutions.

Ms. Diane Scarlett, Head of Operations, OLAF, emphasized the role of the Working Group on Combating Cigarette Smuggling which coordinates large-scale international operations for the interception of cigarette smuggling. The effective cooperation with cigarette producers helps reduce illicit trade as well as uncover factories for the production of fake cigarettes. The production of so called "cheap whites", illegal production and the global nature of the illicit cigarette trade were among the main challenges for OLAF outlined by Mrs. Scarlett. She shared some typical schemes for smuggling of this type of cigarettes and outlined data on the illegal cigarette production in the EU.

Mr. Kristian Vangrieken, Head, International Cooperation Unit, DG Taxation and Customs Union, shared some of the main challenges in the field of combating cigarettes smuggling. The enhancing of the technical capacity of the customs agencies, including through training and upgrading of equipment, with limited financial resources, is one such challenge. The difference of penalties and sanctions for customs fraud in EU Member States is another problem. The different taxes and high prices of the products also predispose smuggling. Mr Vangrieken mentioned several OLAF initiatives among which cooperation agreements for information exchange, enhanced cooperation with producers, joint customs operations. The adoption of relatively comparable excise tax in EU Member States would be the most effective measure for combating cigarettes

smuggling, albeit the most difficult to implement.

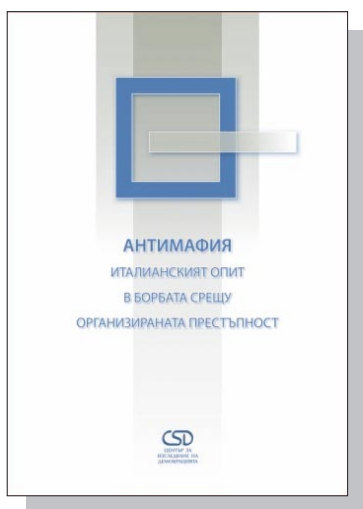
Mr. Tihomir Bezlov, Senior Analyst at CSD, presented an analysis of the tax policy as a factor generating illicit cigarette trade. He stressed the fact that Bulgarians smoke the most expensive cigarettes in the EU if the price of cigarettes is calculated as a percentage of the average income. Mr. Bezlov outlined some tendencies of the illicit cigarette market, which reached almost 40 % of the total volume of cigarette trade in Bulgaria, and estimated the profits generated by organised crime from illicit cigarette trade. He emphasized the different costs, including financial and social, caused by this type of crime.

The participants shared information regarding the storage of seized cigarettes as well as their disposal. The issue of using international laboratories or laboratories of producers for establishing the content of seized cigarettes was also discussed. There was a discussion on the possibility to track cigarette shipments and limit cigarette smuggling by signing memoranda of understanding with big transportation companies. In this relation a question was brought up regarding the utilization of cigarette smuggling revenues by organised crime in funding terrorist organizations which actually poses a threat to the security of each state. The Turkish representative expressed the opinion that it would be beneficial to each partner if a joint initiative would be developed and headed by OLAF or the International Customs Organization so that an adequate training of personnel would be conducted, following uniform standards.

Along with the criminal market analysis, the matter of studying and popularizing the good European practices regarding the fight with organised crime

by confiscating the illegally acquired assets and the subsequent administering of those assets has taken an important place in the annual agenda of the European program.

Together with the Commission for Establishing Properties Acquired from Criminal Activities and the Caserta Province Authority (Italy), the European program started off a project entitled "Sharing Alternative Practices for the Utilization of Confiscated Criminal Assets" (SAPUCCA). Distinctive features of the Italian experience are the utilization of special legal and regulating measures such as civil confiscation and dissolution of a municipal or regional body, as a result of identified infiltration of mafia structures. The achievements and problems of the anti-mafia policies have been widely discussed in Europe; they are of practical importance to Bulgaria especially in light of the elaboration and implementation of adequate legal and institutional mechanisms against organised crime.



The practices implemented by Italian authorities countering the mafia, in particular the expropriation measures

and utilization of confiscated criminal assets, were researched and systematized. The collected materials were published in the *Antimafia* reader.

The reader presents the Italian policies against organised crime, which encompass a broad set of instruments tailored to expose the specific threats and mafia instruments to get round the law. The key measures among these are: the confiscation, administration and utilization of confiscated criminal assets; the dissolution of local municipal councils, infiltrated by mafia; special penitentiary regimes for high-ranking leaders of organised crime.

All these policies are a direct response to the challenges imposed by organised crime. They expand the scope and the set of instruments available to the prosecution and law-enforcement systems. This set of policies complement the traditional approaches against the mafia, which have proven to be not sufficiently effective in a situation of persisting mafia pressure upon the political and economic life in the country. In this context, the Italian experience could be applicable to countries, such as Bulgaria, which are vulnerable to corruption and organised crime.

An international seminar entitled *The Italian Experience in Investigating, Confiscating and Administering Property Acquired from Criminal Activity* was held on 28 October 2011 in Sofia. It aimed to inform the general public and interested Bulgarian institutions of the specific anti-mafia measures taken by the Italian authorities regarding the investigation and expropriation of criminal assets. Representatives from the Italian academic circles, Prosecution and specialised administrative bodies for utilization and management of confiscated criminal assets participated in the seminar.



*International seminar The Italian Experience in Investigating, Confiscating and Administering Property Acquired from Criminal Activity, from left to right: Dr. Marco Cerreto, Director, Relations with the EU Department, Italian Province of Caserta; Dr. Emilia Tarantino, Manager, EU-funded SAPUCCA Project; Dr. Ognian Shentov, Chairman, CSD; Dr. Todor Kolarov, Head, Commission for Establishing Properties Acquired from Criminal Activities*

The Bulgarian participants included representatives from the Prosecution office, the Administrative Courts of Justice and experts from the Ministry of Justice and Ministry of Labour and Social Policy. The Italian participants presented their legislative experience and the specific occasions requiring the implementation of much tougher measures against people who are growing rich from criminal activities, while the basic human rights are being respected. Until the 1980s the laws defined the so-called “facultative confiscation”, where there is a direct link between criminal deeds and acquired assets. After 1992 however, stricter measures were introduced targeting members of organised crime groups, which endanger society. One of these measures is the “preventive confiscation” without being preceded by imposing of criminal

penalty. The importance of measures targeting third persons in such a procedure was highlighted: “The expropriation of assets inevitably leads to questions about a possible derogation of one of the basic human rights, namely the property rights. This underlines the necessity of supplementing the court with proofs of the discrepancy between the investigated person’s wealth and his legal income. The just process requirements are another aspect of safeguarding human rights in effectuating the assets confiscation procedure.”

In 2010, in Italy was established the National Agency for Administering Assets Acquired by Criminal Activity. The establishment of the Agency was due to the fact that the then existing repressive measures in countering organised crime in Italy were ineffec-



*From left to right: Dr. Barbara Vettori, Professor, Catholic University, Milan; Ms. Ilaria De Nicolais, Assistant Project Manager, TECLA Association; Dr. Luigi Gay, Prosecutor, Italian Prosecution Office; Dr. Natale Argiro, Director, Observatory for the Legality, Province of Caserta; Dr. Giacomo Barbato, Deputy Director, National Agency for Administrating Assets Acquired by Criminal Activity*

tive. The agency is put under the aegis of the Ministry of Interior, although it collaborates closely with representatives from the judicial system, the territorial local authorities and the Italian civil society. The Agency gathers information about the properties status, in addition to the management of the confiscated assets.

The Italian policies countering organised crime encompass a broad set of measures which are tailored to expose the specific threats and mafia instruments to get round the law: Specialised legislation for facilitating and accelerating the pre-trial and judicial proceedings against mafia members and leaders was enacted; Harsher penalties and special penitentiary regimes against high level members of organised crime groups, which pose a serious threat to society were introduced; Preventive

confiscation allowing for expropriating mafia assets in favour of the society and state was applied; Holistic anti-mafia policies have been pursued in the infiltrated by the organised crime municipalities and provinces. These policies include dissolving of the mafia controlled local authorities and implementing programs for improving security and economic development in Southern Italy.

## **II. Monitoring and prevention of conventional crime**

In 2011, CSD continued its work in the area of crime prevention, focusing on conventional crime trends. For the second time since 2001 CSD published a comprehensive analysis of this phenomenon for the 2000 – 2010 period, using data from the National Crime Surveys.





*International seminar The Italian Experience in Investigating, Confiscating and Administering Property Acquired from Criminal Activity, from left to right: Dr. Todor Kolarov, Head, Commission for Establishing Properties Acquired from Criminal Activities, Mr. Dimitar Georgiev, Deputy Minister of Interior*

The National Crime Survey is a victimization survey introduced in Bulgaria by CSD in 2001. It enables a detailed analysis of the trends and volumes of crime in Bulgaria and provides reliable information on both crimes registered by the police and unreported ones. Annually the National Crime Survey feeds in data from a national representative survey conducted among 2 500 citizens. It employs the methodology of the International Crime Victims Survey developed by the UN Interregional Crime and Justice Research Institute (UNICRI). Additional modules have been added to reflect the specifics of the Bulgarian crime situation. The survey covers the most common categories of crime: car thefts and thefts from cars, thefts from homes, thefts of personal belongings and crimes against the person. Over the past years real estate,

telephone, debit and credit card frauds have been added.

In contrast to official crime statistics maintained by the Ministry of Interior, victimization surveys help both the police and the public develop a better understanding of the real level and trends of crime. They highlight the volume of unreported/unregistered crime and the reasons for not reporting or registering certain crimes. The comparison of official data with data from victimization surveys allows for the assessment of the level of public trust in the police.

The 2000 – 2010 period is characterized by specific dynamics and variety of crime trends. Between 2000 and 2008 the economic growth, emigration flows, aging population and the increased

duration of convictions led to a continuous decrease in the level of crime. As the economic crisis deepened, crime rates in Bulgaria started to increase since 2009. Compared to 2011, the criminological situation in 2009 sharply deteriorated. As in other crises (1990 – 1992, 1996 – 1997), the crime rate went up; both the National Crime Survey and the official statistics of the Ministry of Interior registered the same trend.

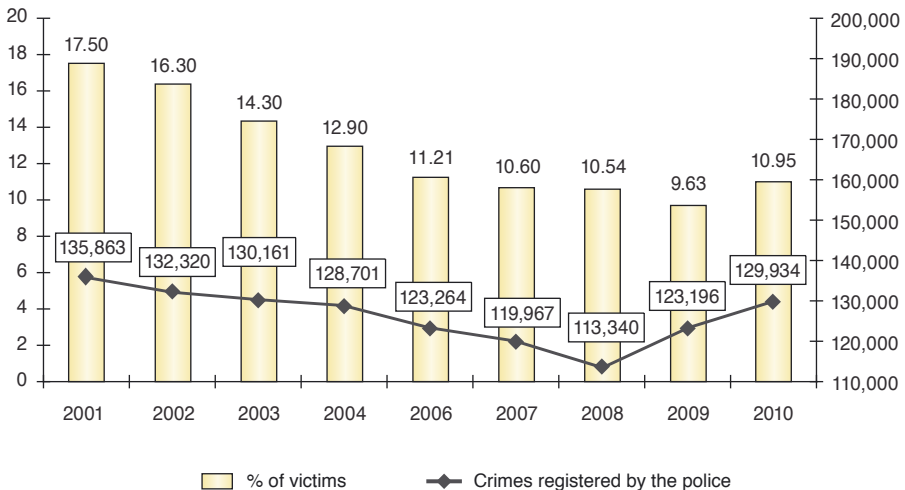
The 2009 – 2010 period is characterized by:

- continued economic crisis and increasing crime rates;
- stable rates of the crimes considered more serious by the population and causing serious damages (car thefts or burglaries);
- increase in the number of pilferages or violent crimes;

- increase in “hidden” crimes that are not reported to the police for the following reasons: (1) lower level of trust in the police force (lower than the level reached in 2009, but higher than that of 2008); and (2) the increased number of petty crimes which are not reported to the police.

The share of unreported crime, which is one of the main indicators showing the level of trust in the police, noticeably decreased in the period up to 2009, as trust in the police was growing. In 2010 it reversed to the average level typical of the past 5 years – 45-46% of victims do not report the crime. Reverting to the previous level of unreported crime is also to the increase in the number of crimes considered minor. In Bulgaria the average level of unreported crime regarding particular categories of crime (like car thefts or robberies) are at levels

**Figure 8. National Crime Surveys (NCS) and police statistics**



Source: NCS; MoI.



comparable to those in the EU. Some specifics can be identified:

- In Sofia and smaller towns citizens report a higher number of crimes;
- In villages and regional centers the rate of unreported crime tends to be higher;
- Unreported crime has highest rates in the North Central and the South Eastern regions of Bulgaria.

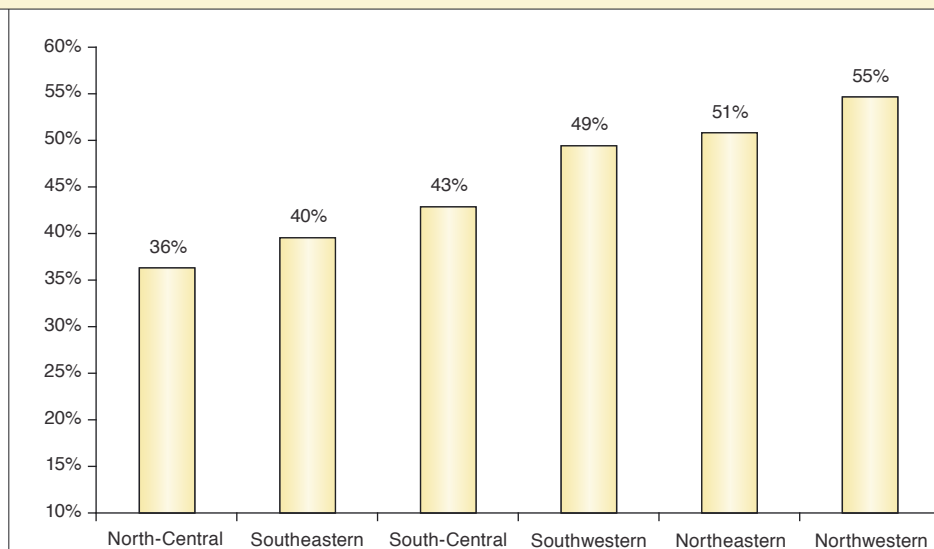
According to forecasts, if the economic situation and negative demographic growth persist, in the next few years the conventional crime rate will start to decline due to the decreasing number of people aged 15-30 who are considered to be more likely to commit crimes (a situation similar to this of 2000 – 2008).

The survey findings were published in a book entitled *Crime Trends in Bulgaria*

2000 – 2010, which was presented on 26 July 2011 at a joint public meeting of CSD and the Internal Security and Public Order Committee of the National Assembly.



**Figure 9. Share of reported crimes (by regions; average number for 2006 – 2010)**



Source: NCS.



*Joint public meeting of CSD and the Internal Security and Public Order Committee of the National Assembly for the presentation of the book *Crime Trends in Bulgaria 2000 – 2010* from left to right: Mr. Tsvetan Tsvetanov, Deputy Prime Minister, Minister of the Interior and Chairman of the National Crime Prevention Commission; Mr. Dimitar Georgiev, Deputy Minister of Interior*

Mr. Tsvetan Tsvetanov, Minister of the Interior, underlined the significance of the National Crime Surveys (NCS) carried out by CSD. He stated that the NCS provide a better picture of the state and trends of crime in the country. With regard to the Ministry of Interior's work, the Minister pointed out that over the past two years there has been a decline in the level of serious and organised crime, crimes against the person and car thefts.

Street crime, as a social problem reflecting the current state of society, should not be viewed as the sole responsibility of the Ministry of Interior. The fight against crime should involve a number of agencies as well as the non-governmental sector. For this purpose it is crucial to apply an integrated approach, part of which

will be the development of a national crime prevention strategy. The Ministry of Interior will continue working on the improvement of the crime registration process as well as increasing trust of the public. As far as the better interaction among the investigation office, the courts and the prosecutor's office is concerned, the introduction of a Uniform Crime Information System would make the fight against crime more efficient. This will give better opportunities for operational analysis of the dynamics of crime and facilitate adequate and prompt decisions providing legal instruments in countering crime.

Commissioner General Angel Antonov, Director, Criminal Police General Directorate, pointed out that crime reflects the development stage of soci-



*Joint public meeting of CSD and the Internal Security and Public Order Committee of the National Assembly for the presentation of the book *Crime Trends in Bulgaria 2000 – 2010* from left to right: Commissioner General Angel Antonov, Director, Criminal Police General Directorate; Mr. Krasimir Tsipov, deputy chairman of the Internal Security and Public Order Committee; Dr. Ognian Shentov, Chairman, CSD*

ety at a concrete point of time and it is a consequence of a number of economic, social, demographic, cultural and other factors. Usually police statistics is used as a basis for surveying the level of crime, while the combination of factors which cause crime rates to change are not considered and often disregarded. In his presentation Commissioner General Antonov elaborated on the measures adopted to improve police statistics, such as the statistical monitoring of processing of reported crimes. He underscored the importance of police officer training with regard to the application of the new operating procedures for crime registration. Commissioner General Antonov also presented the audience with information related to the dynamics of crime trends from police point of view and also named some existing problems in this area. He concluded

that in its work the police try to consider all factors which impact the dynamics of all types of crime with regard to improving its efficiency.

Mr. Konstantin Penchev, Ombudsman of the Republic of Bulgaria, pointed out that countering crime requires not only the will to fight crime but also a change in the public's attitudes towards crime. A good example is the victims of telephone fraud. As long as such attitude exists it is impossible to expect an eradication of this type of crime. As far as the judiciary is concerned, Mr. Penchev underscored that the type and duration of punishments play a significant part in crime prevention. In cases of repeat offenders judges could rule out convictions of longer duration. A very important factor, according to Mr. Penchev, is the observance of reasonable deadlines in the criminal justice process.

The participants in the public discussion discussed and suggested various approaches to counter conventional crime, among which the stepping up of the implementation of the Uniform Crime Information System in order to counter crime more efficiently, expansion of crimes studied such as tax fraud, fictitious import and fraudulent reimbursement of excise tax and others. As well as increasing transparency and accessibility to results achieved in police work.



*Mr. Konstantin Penchev, Ombudsman  
of the Republic of Bulgaria*

### **III. National and international security**

Bulgaria's commitments as a NATO and European Union member get even more important in the light of the latest global developments. In this context on 28 July 2011 CSD, in cooperation with the Southeast Europe Development Initiative and the Bulgarian Ministry of Defense, hosted in the Sofia Military

Club a public discussion on national and international security in the 21<sup>st</sup> century. The keynote speaker was General James Jones, former National Security Advisor to President Obama and Supreme Allied Commander Europe, joined by the Bulgarian Minister of Defense Anu Anguelov. Present at the discussion were high-ranking Bulgarian officials, former and current members of the Bulgarian armed forces, diplomats, members of non-governmental organizations and the media.

General Jones complimented Bulgaria's role in NATO, emphasizing the importance of US Bulgarian relations. He noted that in the 21<sup>st</sup> century threats from non-traditional sources need to be recognized, including cyber terrorism, links between organized crime and international terrorism, and energy security. These are threats that need to be addressed proactively, as opposed to the largely reactive security policies of the 20<sup>th</sup> century. To this point, he emphasized the need for greater engagement between developed and developing countries based on three components: security, economic opportunity, and increased rule of law and democratic governance. Regarding traditional allies, General Jones underscored the importance of increased trust and exchange of information. To an extent this has happened already, as exhibited by the recent successes in the fight against international terrorism.

General Jones presented a review of the first two years of Obama's administration in an international context. He noted the issues that President Obama was elected on, including: a restoration of the US image abroad; increasing dialogue and cooperation between nations including Russia, China, India and previously non-engaged nations such as Iran; closing out the US presence in Iraq and closing the Guantanamo Bay





*Public discussion on national and international security: Gen. James Jones, former National Security Advisor to President Obama and Supreme Allied Commander Europe*

detention facility; participation in a new NATO strategy; outreach to the Muslim world including a stimulation of the Middle East peace process; addressing nuclear proliferation; and responding to the previously mentioned new security threats. Strategic thinking will become more difficult in foreign policy, according to General Jones, due to the increased pace of international events, and will become more prevalent in the private sector. He addressed the status of the aforementioned goals, noting that the results after two years are better than the credit the administration gets from the media. The Middle East peace process was seen as the most disappointing result, while goals such as the withdrawal from Iraq are on target.

#### **IV. Expanding the scope of research**

In times of economic crisis and increasing risks of terrorism, organised crime

and illegal migration, the issue of more effective and efficient management of the external borders of the European Union has become more important over the past years. To Bulgaria it is of paramount significance with regard to its forthcoming accession to the Schengen Agreement.

Despite the efforts to develop uniform standards for managing the external borders of the European Union, the patterns and scope of cooperation between customs administrations and border guards were left within the competency of each Member State. As a result, some Member States have achieved very good institutional cooperation, even merged both institutions (as in the case of UK), whereas in other Member States the relations between both agencies are characterized either by complete separation of powers or existing mistrust, rivalry and lack of communication.

A number of national, geographic and institutional factors define the variety of management patterns and interagency operative practices regarding border control within the European Union. In some Member States there are obstacles that hinder the cooperation between border guards and customs administrations, which require more background information in order to be understood.

In 2010 the European Program was commissioned by the European Commission to conduct a first ever study to identify best practices on the cooperation between border guards and customs administrations working at the external borders of the EU. The finding of the report entitled *Better management of EU Borders Through Cooperation*, which in May 2011 was presented in Brussels at a special meeting of the representatives of the Ministries of the Interior of all Member States.



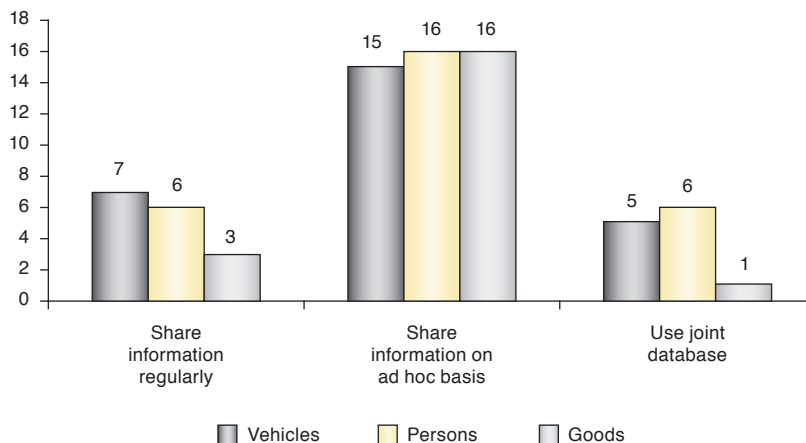
On 14 June 2011 the report was presented at the Bulgarian Parliament at a round table entitled *Cooperation between Customs Administrations and Border Guards for better management of the External Borders of the European Union*.



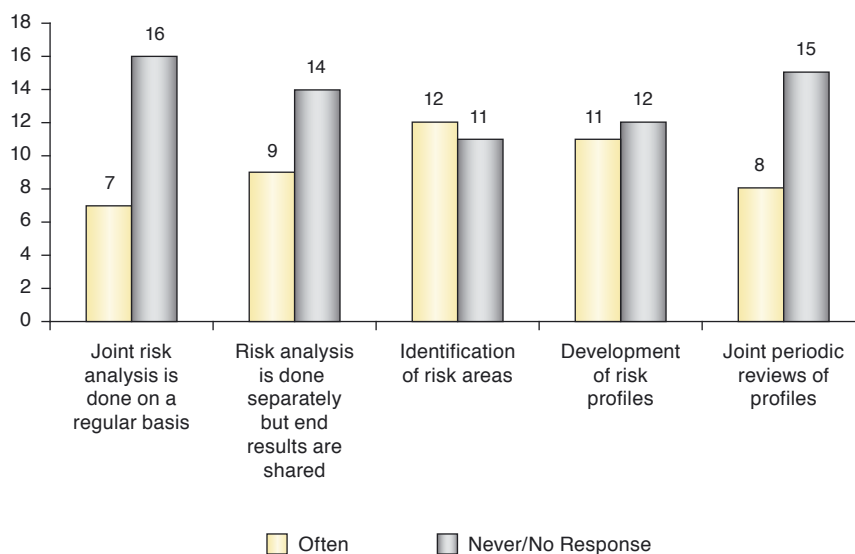
*From left to right: Dr. Marko Arndt, Director, Sofia Office, Konrad Adenauer Foundation; Mr. Anastas Anastasov, Deputy Chairman, National Assembly and Chairman of the Internal Security and Public Order Committee; Dr. Ognian Shentov, Chairman, Center for the Study of Democracy; Mr. Tzvetan Tzvetanov, Deputy Prime Minister and Minister of the Interior; Mr. Konstantin Igash, Minister of the Administration and Interior of Romania*



**Figure 10. Exchange of information between Customs and Border Guards in EU Member States**



**Figure 11. Forms of cooperation in risk analysis in EU Member States**





*Round table Cooperation between Customs Administrations and Border Guards for better management of the external borders of the European Union*

The participants were presented with the findings of the study on best practices on the cooperation between customs administrations and border guards in all 27 member states of the European Union along with recommendations to the European Commission and Member States with regard to possible practical measures and policies. It was underlined that the issue of cooperation between customs administrations and border guards of the member states of the European Union is one of the structural problems in the area of justice and home affairs of the EU. Different reasons with regard to operational cooperation, institutional culture (one of a civil-administrative or paramilitary type), political pressure, etc. underpin the varying extent of cooperation between these two institutions within the European Union, becoming less intensive from the Scandinavian countries to South

East European countries. The report identifies best practices and patterns of cooperation between customs administrations and border guards as well as makes recommendations to Member States and EC in light of increasing the effectiveness of external border control.

The experts from the Center for the Study of Democracy presented the study based data collected during site visits to 12 countries and through more than 200 interviews. Eleven areas of cooperation between border guards and customs administrations were studied in detail. Two groups of Member States are formed. The first group comprises Scandinavian MSs, including UK and Germany, and is characterized by efficient cooperation patterns. It provides more efficient border control and avoids duplication of functions which in times of crisis results in financial savings.

The other group is characterized by low extent of cooperation between border guards and customs administrations and the reason for that is different institutional cultures. An assessment was made of the extent to which best practices on the cooperation between border guards and customs administrations could be applied to the Bulgarian environment. An emphasis was placed on the new threats that Bulgaria would face when the country joins the Schengen area, such as migration flows to Europe and cigarette smuggling.

Mr. Tzvetan Tzvetanov, Deputy Prime Minister and Minister of the Interior, pointed out that over the last years there has been an improvement in the cooperation between Bulgaria's Customs Agency and DG Border Police. The changing environment requires new regulations on cooperation and the development of compensatory mechanisms especially with Bulgaria entering the Schengen Area. Mr. Tzvetanov underlined the increasing role of FRONTEX with regard to border security and the part

it is playing in tackling migration flows from North Africa to Greece and Italy. The mechanism for controlled deliveries, jointly implemented by Customs and GDBOP has led to a number of positive results in conducting a series of operations on seizures of contraband goods, destroying channels for cocaine and heroin smuggling and apprehending their organizers. Mr. Tzvetanov underscored the importance not only of the cooperation between the Customs Agency and the Ministry of Interior but also among the institutions of the other Member States and European agencies such as Europol and OLAF.

It was emphasized that the newly assigned investigative powers of the Customs Agency should be compounded with the necessary administrative capacity in order to be carried out successfully. In the area of cooperation among the Customs Agency, Ministry of Interior and the Prosecutor's Office there is a need for such reforms that would lead to feasible results.



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## **Part Two**

# **Administration and Management**





# Institutional Development

CSD is registered as a public benefit organization with the Central Registry of NGOs at the Bulgarian Ministry of Justice. Public benefit organizations are obliged by law to conform to a number of additional financial reporting rules and to submit annual activity reports.

In 2011, CSD employed a staff of thirty-seven of whom thirty-one in professional and management positions, including part-time consultants, and six employees in administrative positions.

**Accountability and transparency** are guiding principles in the operation of the Center for the Study of Democracy. They are intrinsic to CSD activity and are related to the critical analysis of social processes and trends in Bulgaria and in the EU. These principles are implemented by means of:

- publishing annual audit reports since 1992;
- auditing individual projects;
- publishing CSD annual reports since 1994;
- providing regularly information about the activities of CSD on its website;
- providing information to the mass media about on-going projects and their results;
- publishing a wide range of analyses and reports.

The application of good management practices has been critical to the successful work of CSD. In 2011, the Center continued its efforts to adapt its work to the dynamic donor environment and the new EU financial instruments available for the period 2007 – 2013: the

7<sup>th</sup> Framework Program, the European Social Fund, the financial instruments in the area of justice and home affairs. Some of CSD activities were funded through the operational programs administered by the Bulgarian government, as well as the Kingdom of Norway, the World Bank and the Open Society Institute. Apart from the awarded grants, CSD diversifies its ways of funding by taking part in tender bids announced by the European Commission (through its consulting arm Project One EOOD).

In 2011, CSD proved its reputation as a reliable partner and coordinator of projects encompassing research not only in Bulgaria but in all EU Member States. In partnership with leading European NGOs and academic institutions, CSD took part in the European debate on the assessment and development of policies related to countering organised and conventional crime, the grey economy, corruption, as well as policies with regard to third country nationals and security issues concerning the external borders of the EU.

## **Consulting arms of CSD: Vitosha Research and Project One**

Vitosha Research EOOD and Project One EOOD are wholly owned by CSD and form the CSD Group. Vitosha Research EOOD had started as one of the programs of CSD dealing with sociological issues and in 2000 was set up as a separate commercial company aiming to support the long term financial sustainability of CSD through involvement in marketing research. The General Manager of the company is the Director of Research of CSD.

Project One EOOD was founded after consultations with the auditing company KPMG in order to enable CSD's participation in tenders and consultancy projects on the territory of Bulgaria and the EU. Project One is also in charge of the management of CSD investment activities. The Manager of Project One EOOD is the Executive Director of CSD. The three organizations use interchangeably their facilities, human and financial resources in order to better achieve their goals, while observing distinct separation of CSD Group's commercial and non-commercial activities.

In 2011, Vitosha Research carried out twenty social, economic, media and marketing research projects. More than twenty thousand face-to-face, telephone and online interviews were conducted with citizens, profit and non-profit organizations.

Until August 2011 Vitosha Research was the Bulgarian partner in the Flash Eurobarometer – a large-scale research project of the European Commission involving regular surveys on topical issues among the citizens of thirty-four countries, including some EU member states. In 2011, Vitosha Research conducted twelve Flash Eurobarometer surveys.

Along with marketing research, in 2011 the agency carried out surveys in the

social and economic areas commissioned by Bulgarian and international institutions:

- Gallup Hungary (World Poll Survey – Bulgaria 2011)
- New York University (Experimental Survey on Partisanship in Bulgaria)
- FRA through Gallup Europe (Discrimination and Victimization in the EU Member States – Experiences and Attitudes of Immigrants and Ethnic Minorities)
- Romanian Institute for Economic and Social Research and Polls – IRECSO S.R.L. (Socio-economic study to be carried out in the Romania-Bulgaria cross-border area between 2009 – 2015)
- The Ministry of Agriculture and Foods (Broadband Penetration and Usage in Rural Areas – Survey)
- The State Agency for Child Protection (Assessment of the Implementation of the National Child Strategy)

Project One EOOD continued its efforts to have an office building constructed at 3, Zhendov Str., a site adjacent to the building currently occupied by CSD. The office building is designed in full compliance with the standards of the Bulgarian Green Building Council. Through this project CSD will contribute to the implementation of best energy saving practices.

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# List of Staff

## Governing Board

Ognian Shentov, PhD, Chairman  
Vladimir Yordanov, Executive Director  
Alexander Stoyanov, Director of Research

## Program Board

Andrey Nonchev, PhD, Director, Sociological Program  
Chavdar Chervenkov, Lieut. Gen. (ret.), Director, European Program  
Maria Yordanova, PhD, Director, Law Program  
Mois Faion, PhD, Financial Director, Senior Fellow  
Ruslan Stefanov, Director, Economic Program

## Economic Program

Ruslan Stefanov, Director  
Todor Galev, PhD, Senior Analyst  
Todor Yalamov, Senior Analyst  
Daniela Mineva, Research Fellow  
Ilian Iliev, Senior Fellow  
Nikolai Tagarov, Senior Analyst  
Stefan Karaboev, Research Fellow  
Denitza Mantcheva, Policy Analyst

## Law Program

Maria Yordanova, PhD, Director  
Dimitar Markov, Senior Analyst and Project Director  
Miriana Ilcheva, Research Fellow  
Galina Sapundjieva, Program Assistant  
Maria Doichinova, Program Assistant

## Sociological Program

Andrey Nonchev, PhD, Director  
Svetla Encheva, Analyst  
Kamelia Dimitrova, Research Fellow  
Mila Mancheva, PhD, Senior Analyst  
Teodora Lukanova, Program Assistant

## European Program

Chavdar Chervenkov, Lieut. Gen. (ret.), Director  
Boyko Noev, Ambassador, Senior Fellow  
Tihomir Bezlov, Senior Analyst  
Boyko Todorov, Senior Fellow  
Emil Tsenkov, PhD, Senior Fellow  
Philip Gounev, PhD, Senior Analyst  
Atanas Russev, PhD, Research Fellow  
Rositsa Tzhekova, Analyst  
Snezhana Popova, Program Assistant

Administration

Mariana Yankova, Administrative Secretary  
Nelly Gospodinova, Executive Assistant  
Stefan Georgiev, LAN Administrator

Financial Department

Maria Georgieva, Chief Accountant

Technical Support

Boyko Tassev  
Alyosha Purvanov

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## **Part Three**

# **Financial Review**



CENTER FOR  
THE STUDY OF  
DEMOCRACY

**Center for the Study of Democracy (The Group)**

**Consolidated Annual Financial Statements**

**31 December 2011**



## **Independent Auditors' Report**

To the General Assembly of  
The Center for Study of Democracy

Sofia, 29 June 2012

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Center for Study of Democracy and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Rositsa Boteva  
Registered Auditor  
"Major Parvan Toshev" str., Nr. 25  
Sofia 1408



Bulgaria

Center for the Study of Democracy (The Group)  
Consolidated Statement of Financial Position, 31 December 2011

(all amounts in BGN thousand)	Note	31 December 2011	31 December 2010
<b>Assets</b>			
Property, plant and equipment	5	2,109	2,138
Intangible assets	6	2	12
Investment property	7	356	367
Deferred tax assets	16	12	8
<b>Total non-current assets</b>		<b>2,479</b>	<b>2,525</b>
Trade and other receivables	8	641	276
Cash and cash equivalents	9	941	1,335
Deferred expenses		202	183
<b>Total current assets</b>		<b>1,784</b>	<b>1,794</b>
<b>Total assets</b>		<b>4,263</b>	<b>4,319</b>
<b>Equity</b>		<b>3,068</b>	<b>3,268</b>
<b>Liabilities</b>			
Loans payable	11	241	225
<b>Total non-current liabilities</b>		<b>241</b>	<b>225</b>
Trade and other payables	10	311	307
Lease liabilities		-	9
Deferred financing	12	623	492
Corporate income tax liabilities	16	20	18
<b>Total current liabilities</b>		<b>954</b>	<b>826</b>
<b>Total liabilities</b>		<b>1,195</b>	<b>1,051</b>
<b>Total equity and liabilities</b>		<b>4,263</b>	<b>4,319</b>

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2012. They are signed on behalf of the Governing Board by:

Vladimir Yordanov  
Executive Director  
29 June 2012



Initialed for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
29 June 2012




Center for the Study of Democracy (The Group)  
Consolidated Statement of Comprehensive Income, 31 December 2011

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2011	31 December 2010
Revenues	13	2,078	2,449
Cost of Sales	14	(2,219)	(2,407)
<b>Gross Profit</b>		<u>(141)</u>	<u>42</u>
Other operating income		-	41
Administrative expenses		-	(25)
Impairment losses		(49)	-
<b>Revenue from operating activities</b>		<u>(190)</u>	<u>58</u>
Financial income		16	15
Financial expenses		(27)	(36)
<b>Net financing costs</b>	15	<u>(11)</u>	<u>(21)</u>
<b>Profit before income tax</b>		<b>(201)</b>	<b>37</b>
Income tax expense	16	1	(21)
<b>Net profit for the period</b>		<u><u>(200)</u></u>	<u><u>16</u></u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u><u>(200)</u></u>	<u><u>16</u></u>

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2012. They are signed on behalf of the Governing Board by:

Vladimir Yordanov  
Executive Director  
29 June 2012




Initialled for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
29 June 2012




Center for the Study of Democracy (The Group)  
Consolidated Statement of Changes in Equity, 31 December 2011

(all amounts in BGN thousand)	Note	Retained earnings	Total
<b>Balance as at 1 January 2010</b>		3,252	3,252
Net profit for the period		16	16
<b>Balance as at 31 December 2010</b>		<u>3,268</u>	<u>3,268</u>
<b>Balance as at 1 January 2011</b>		3,268	3,268
Net profit for the period		(200)	(200)
<b>Balance as at 31 December 2011</b>		<u><u>3,068</u></u>	<u><u>3,068</u></u>

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2012. They are signed on behalf of the Governing Board by:



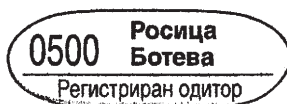
Vladimir Yordanov  
Executive Director  
29 June 2012



Initialed for identification purposes in reference to the audit report:



Rositsa Boteva  
Registered Auditor  
29 June 2012



*Center for the Study of Democracy (The Group)*  
*Consolidated Cash Flow Statement, 31 December 2011*


(all amounts in BGN thousand)	Note	<b>For the year ending:</b>	
		<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Cash flows from operating activities</b>			
(Loss)/Profit before income tax		(201)	37
Adjustments for:			
Depreciation and amortisation	5,6,7	111	113
Net interest income accrued		<u>1</u>	<u>(15)</u>
		<u><b>(89)</b></u>	<u><b>135</b></u>
Changes in working capital:			
(Increase)/Decrease of inventory		-	2
(Increase)/Decrease of trade and other receivables and deferred expenses		(384)	37
Increase/(Decrease) of trade and other payables		<u>137</u>	<u>609</u>
<b>Cash flow from operating activities</b>		<u><b>(336)</b></u>	<u><b>783</b></u>
Interest received		12	15
Income tax paid		<u>(11)</u>	<u>(8)</u>
<b>Net cash flows from operating activities</b>		<u><b>(335)</b></u>	<u><b>790</b></u>
<b>Cash flows from investment activities</b>			
Purchase of property, plant and equipment and intangible assets		(59)	(174)
Proceeds from sale of property, plant and equipment		<u>-</u>	<u>-</u>
<b>Net cash flows from investment activities</b>		<u><b>(59)</b></u>	<u><b>(174)</b></u>



Center for the Study of Democracy (The Group)  
Consolidated Cash Flow Statement, 31 December 2011

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2011	31 December 2010
<b>Cash flows from financial activities</b>			
Paid interest and bank charges		-	(24)
Loans received		-	-
<b>Net cash flow from financial activities</b>		-	(24)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(394)	592
Cash and cash equivalents at the beginning of the period		1,335	743
<b>Cash and cash equivalents at the end of the period</b>	9	941	1,335

These financial statements set out on pages 3-25 were approved by the Governing Board on 29 June 2012. They are signed on behalf of the Governing Board by:



Vladimir Yordanov  
Executive Director  
29 June 2012



Initialled for identification purposes in reference to the audit report:



Rositsa Boteva  
Registered Auditor  
29 June 2012



## **1. Group background and activities**

The Center for the Study of Democracy (CSD) is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of CSD for the year ended 31 December 2010 comprise CSD and its subsidiaries, Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for the Study of Democracy (CSD) is an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organization fostering the reform process in Bulgaria through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and serve as a watchdog of the institutional reform process in the country;
- to strengthen the institutional and management capacity of NGOs in Bulgaria.

The Center for the Study of Democracy owns 100% of its subsidiaries Vitosha Research EOOD and Project 1 EOOD.

Vitosha Research EOOD, established in 2000, is specialised in wide range of research fields: social and economic policy; social assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; advertising studies, and others.

Project 1 EOOD was established in 2003. Its main activity is managing real estate investments of the Group and project management of the contract research of the Group.

As of 31 December 2011 the Group has 41 employees.

The financial statements were approved by the Governing Board on 29 June 2012.

## **2. Accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## **2.1. Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent Group, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intra-group balances, income and expenses and unrealized gains resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the

operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Transactions with non-controlling interests*

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Disposals of non-controlling interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of non-controlling interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Group. The elements of the financial statements whose presentation includes higher degree of judgment or subjectivity and for which the assumptions and judgments have higher influence are separately disclosed in Note 4.

#### *New and amended standards, adopted by the Group:*

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2011 are not early adopted by the Group because management of the Group believes that they are nor currently relevant to the Group although they may affect accounting for future transactions and events.

## **2.2. Foreign currency translations**

### **2.2.1. Functional and presentation currency**

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency is 'Bulgarian lev' or 'BGN'.

### **2.2.2. Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## **2.3. Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation, less impairment losses, if any. Historical cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation commence from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

The Group uses straight – line depreciation method. Depreciation rates are based on the useful life of the different types of property, plant and equipment as follows:

Buildings	25 years
Machinery and equipment	2 years
Vehicles	4 years
Fixtures and fittings	2 - 6 years

Property, plant and equipment is depreciated from the month, following the acquisition date and for internally generated assets – from the month, following the date of entering into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### **2.4. Intangible assets**

Intangible assets acquired by the Group are presented at cost, less accumulated amortisation and impairment.

##### *Subsequent expenditures*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

#### **2.5. Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2011.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest rate.

#### *Held-to-maturity*

Held-to-maturity investments are fixed-maturity investments that the Group's management has the positive intention and ability to hold to maturity. These securities are included as non-current assets except for securities, reaching maturity within 12 months from the balance sheet date and which are recognised as current during the reporting period. During the year, the Group did not hold any investments in this category.

#### *Available for sale financial assets*

Available-for-sale financial assets are non-derivatives that are investments acquired with the purpose to be owned for non-fixed period of time and which can be sold when the Group needs recourse or at change of interest rates. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.7.

## **2.6. Inventory**

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.



## **2.7. Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

## **2.8. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

## **2.9. Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## **2.10. Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of

transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **2.11. Deferred tax**

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **2.12. Employee benefits on retirement**

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years. As at 31 December the Group has not accounted for those potential obligations.

### **2.13. Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *Sales of services*

Revenue from time and material contracts, typically from delivering certain services, is recognised under the percentage of completion method. Revenue is generally recognised at

the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

Revenue from fixed-price contracts for delivering certain services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

#### *Revenue from grants and contributions*

Grants from financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

#### *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### **2.14. Dividend distribution**

The Group does not distribute dividends.

## **3. Financial risk management**

### **3.1. Global financial crisis**

#### **Impact of the ongoing global financial and economic crisis**

The global financial crisis has had a severe effect on the Bulgarian economy and the financial situation within the Bulgarian financial and corporate sectors has significantly deteriorated since mid-2008. In 2010 and 2011, the Bulgarian economy experienced a moderate recovery in economic growth. The recovery was accompanied by increased export and increased rate of household savings.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group.

The Bulgarian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world. Management is unable to determine reliably the effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current circumstances.

### **Impact on liquidity**

The global financial crisis continues to have significant impact on the Group during 2011. The length of the crisis, along with the slowed recovery of the industry and bank sector, might lead to decreased operational cash flows, the ability to obtain new credits, increased operating expenses and slowdown or reduction of the planned capital expenditures.

### **Impact on customers/borrowers**

The debtors or borrowers of the Group may also be affected by the lower liquidity situation which could, in turn, impact their ability to repay the amounts owed. The operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

## **3.2. Financial risk factors**

The risk exposures of the Group could be determined as follows: market risk (including currency risk, price risk and risk of future cash flow changes as a result of changes in market interest rate), credit risk and liquidity risk. The Group's management focuses on the financial risk and seeks to minimise potential adverse effects on the Group's financial performance.

### **3.2.1. Market risk**

#### *a) Currency risk*

The Group is not exposed to foreign exchange risk as most of its activities are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR.

The Group's management does not believe that the peg will change within the next 12 months and therefore no sensitivity analysis has been performed.

*b) Price risk*

The Group's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Group.

### 3.2.2. Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis and addresses the underlying risk.

### 3.2.3. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

### 3.2.4. Liquidity risk

In the context of its underlying activities, the Group is able to maintain flexibility in funding and to use credit lines, overdrafts and other credit facilities, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<b>As at 31 December 2011</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	311	241	-	-
<b>As at 31 December 2010</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	307	-	225	-

#### **4. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgements is monitored regularly.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

##### *Useful life of property, plant and equipment*

The presentation and valuation of property, plant and equipment requires the Management to estimate their useful life and remaining value. The Management assesses at the end of each accounting period the determined useful life of the property, plant and equipment.

##### *Impairment of loans and receivables*

Impairment of receivables is determined based on Management's expectations for the collectability of the loans and receivables. As at the date of preparation of the financial statements, the Management reviews and assesses the existing receivables' balances for collectability.



## 5. Property, plant and equipment

	Land & buildings	Computers	Vehicles	Fixtures & Fittings	Other assets	Assets under construc- tion	Total
<b>Cost</b>							
As at 1 January 2010	839	193	226	126	3	1,170	2,557
Additions	-	28	101	10	-	38	177
Disposals	-	(17)	-	(5)	-	-	(22)
<b>As at 31 December 2010</b>	<b>839</b>	<b>204</b>	<b>327</b>	<b>131</b>	<b>3</b>	<b>1,208</b>	<b>2,712</b>
Additions	-	5	-	-	-	56	61
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2011</b>	<b>839</b>	<b>209</b>	<b>327</b>	<b>131</b>	<b>3</b>	<b>1,264</b>	<b>2,773</b>
<b>Depreciation</b>							
As at 1 January 2010	103	144	149	104	3	11	514
Depreciation charge	18	24	34	6	-	-	82
Disposals	-	(17)	-	(5)	-	-	(22)
<b>As at 31 December 2010</b>	<b>121</b>	<b>151</b>	<b>183</b>	<b>105</b>	<b>3</b>	<b>11</b>	<b>574</b>
Depreciation charge	18	25	41	6	-	-	90
Disposals	-	-	-	-	-	-	-
<b>As at 31 December 2011</b>	<b>139</b>	<b>176</b>	<b>224</b>	<b>111</b>	<b>3</b>	<b>11</b>	<b>664</b>
<b>Carrying amount</b>							
As at 1 January 2010	736	49	77	22	-	1,159	2,043
As at 31 December 2010	718	53	144	26	-	1,197	2,138
As at 31 December 2011	700	33	103	20	-	1,253	2,109

*Center for the Study of Democracy (The Group)*  
*Notes to the Consolidated Annual Financial Statements, 31 December 2011*  
*(all amounts in BGN thousand, unless otherwise stated)*

## 6. Intangible assets

	<b>Software</b>	<b>Total</b>
<b>Cost</b>		
As at 1 January 2010	79	79
Additions	(13)	(13)
<b>As at 31 December 2010</b>	<u><u>66</u></u>	<u><u>66</u></u>
Disposals	-	-
<b>As at 31 December 2011</b>	<u><u>66</u></u>	<u><u>66</u></u>
<b>Amortisation</b>		
As at 1 January 2010	46	46
Amortisation charge	12	12
<b>As at 31 December 2010</b>	<u><u>54</u></u>	<u><u>54</u></u>
Amortisation charge	10	10
<b>As at 31 December 2011</b>	<u><u>64</u></u>	<u><u>64</u></u>
<b>Carrying amount</b>		
As at 1 January 2010	33	33
As at 31 December 2010	12	12
<b>As at 31 December 2011</b>	<u><u>2</u></u>	<u><u>2</u></u>

## 7. Investment property

	2011	2010
<b>As at 1 January</b>		
Carrying amount at the beginning of the period	367	378
Depreciation charge	(11)	(11)
<b>Carrying amount at the end of the period</b>	<u><u>356</u></u>	<u><u>367</u></u>
<b>As at 31 December</b>		
Cost	428	428
Accumulated depreciation	(72)	(61)
<b>Carrying amount</b>	<u><u>356</u></u>	<u><u>367</u></u>

Investment properties of the Group consist of land and buildings acquired in the period 2005 – 2006. Investment property is presented at cost less accumulated depreciation and impairment losses.

## 8. Trade and other receivables

	<b>As at 31 December</b>	
	2011	2010
Trade receivables	677	267
Less: Impairment provision of trade payables	(74)	(25)
Trade receivables, net	<u>603</u>	<u>242</u>
Prepaid corporate tax	18	33
Other	20	1
	<u><u>641</u></u>	<u><u>276</u></u>

The carrying amount of trade and other receivables approximates their fair value.

## 9. Cash and cash equivalents

	<b>As at 31 December</b>	
	2011	2010
Cash at hand	162	83
Cash in bank current accounts	779	1,252
	<u><u>941</u></u>	<u><u>1,335</u></u>

*Center for the Study of Democracy (The Group)*  
*Notes to the Consolidated Annual Financial Statements, 31 December 2011*  
*(all amounts in BGN thousand, unless otherwise stated)*

### 10. Trade and other payables

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Payables to related parties	150	150
Payables to partners and suppliers	140	132
Salaries and social securities payables	1	21
Other	20	4
	<u>311</u>	<u>307</u>

### 11. Loans liabilities

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Principal of loan to related parties	200	200
Interest payable	41	25
	<u>241</u>	<u>225</u>

Loans liabilities represent loan granted in 2009 by IR Communications to Project 1. According to the loan contract the interest rate is 8 %.

## 12. Deferred financing

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
European Commission – Tracking Progress in Strengthening the Criminal Justice Indicators for Integrated Case Management	139	139
Norwegian Government – Norwegian Cooperation Programme – Strengthening Governance for Sustainable Production in Bulgaria	-	145
European Commission – Bulgarian Organised Crime Threat Assessment	-	113
European Commission – Integrating Refugee and Asylum-seeking Children in the Educational Systems of EU Member States	42	56
Open Society Institute (Budapest) – Good governance or Civil Society Capture	14	-
European Commission – Sharing Alternatives Practices for the Utilisation of Confiscated Criminal Assets	94	-
European Commission – Integrating Refugee and Asylum-seeking Children in the Education System in the Member States of the EU	103	-
European Commission – Threat assessment of bullying behaviour in Internet	29	-
European Commission – Enhancing Police Internal Affairs Departments in EU Member States	174	-
Other	20	18
<b>Total deferred financing related to projects</b>	<b>615</b>	<b>471</b>
Financing for acquisition of fixed assets	8	21
	<b>623</b>	<b>492</b>

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### 13. Revenues

Revenues from grants financing and other project for respective periods are as follows:

	2011	2010
European Commission – Bulgarian Organised Crime Threat Assessment	312	424
Norwegian Government – Norwegian Cooperation Programme – Strengthening Governance for Sustainable Production in Bulgaria	319	263
European Commission – Integrating Refugee and Asylum-seeking Children in the Educational Systems of EU Member States	152	82
Ministry of Labour and Social Policy – European Integration Fund – Development of Information Foundations of the Bulgarian Immigration Policy Towards Third Countries Nationals	-	51
European Commission – Tracking Progress in Strengthening the Criminal Justice Indicators for Integrated Case Management	-	39
German Marshal Fund (Bulgaria Fund) – Countering Civil Society Capture in Bulgaria	-	33
Konrad Adenauer Foundation – Hidden Economy in Bulgaria	3	30
European Commission – Measuring Public Confidence in Justice Systems	113	-
European Commission – Assisting and Reintegrating Children Victims of Trafficking	76	-
Friedrich Ebert Foundation – Organised Crime Threat Assessment; Hidden Economy in Bulgaria	36	-
Open Society Institute (Budapest) – Good governance or Civil Society Capture	31	-
European Commission – Sharing Alternatives Practices for the Utilisation of Confiscated Criminal Assets	40	-
European Commission – Network to Empower Volunteering Work within the Prison System in Europe and in the Western Balkans	16	-
European Commission – Threat assessment of bullying behaviour in Internet	8	-
European Commission – Empowering civil society in Bosnia and Herzegovina to fight corruption	39	-
Other projects	12	37
	<u>1,157</u>	<u>959</u>
Revenue from services	904	1,463
Income from financing for fixed assets	17	27
	<u><u>2,078</u></u>	<u><u>2,449</u></u>



#### 14. Cost of sales

Cost of sales for the Group includes:

	<b>2011</b>	<b>2010</b>
Expenses for materials	47	50
External services	1,394	1,684
Depreciation and amortisation	111	113
Salaries and social securities	581	447
Other expenses	86	113
	<u>2,219</u>	<u>2,407</u>

#### 15. Finance costs, net

	<b>2011</b>	<b>2010</b>
Interest income	<u>16</u>	<u>15</u>
	<b>16</b>	<b>15</b>
Interest expense	(17)	(19)
Foreign exchange gains/(losses), net	(5)	(12)
Other financial expenses	<u>(5)</u>	<u>(5)</u>
	<u>(27)</u>	<u>(36)</u>
<b>Finance costs, net</b>	<u><b>(11)</b></u>	<u><b>(21)</b></u>

#### 16. Income tax

The major components of income tax expense for the year ended 31 December 2011 and the period ended 31 December 2010 are:

	<b>2011</b>	<b>2010</b>
Current tax	(3)	(22)
Deferred tax	<u>4</u>	<u>1</u>
<b>Income expense</b>	<u><b>1</b></u>	<u><b>(21)</b></u>

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Movement in deferred tax asset and deferred tax liability as of 31 December 2011 and 31 December 2010 includes the following:

	31 December 2011		31 December 2010		2011 net	2010 net
	Assets	Liabilities	Assets	Liabilities		
Property, plant and equipment	8	-	5	-	8	5
Trade payables	4	-	3	-	4	3
Net deferred tax asset/liability	12	-	8	-	12	8

The official rate stated in Corporate Tax Law adopted for 2011 was set to 10 % (2010:10%). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

*Movement in deferred tax*

	Balance as of 1 January 2011	Income in income statement	Balance as of 31 December 2011
Property, plant and equipment	5	3	8
Trade payables	3	1	4
Net deferred tax asset/liability	8	4	12

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Groups' management is not aware of any circumstances which may give rise to a potential material liability in this respect.

There are no tax checks performed in the recent years.

## 17. Related parties

The group is related party to the Applied Research and Communication Fund and its subsidiaries.

The following transactions occurred during the year:

Related party	Transactions during the year	January-December		31 December		31 December	
		2011	2010	2011	2010	2011	2010
		Transactions		Receivables		Payables	
ARC Consulting	Consulting services	60	166	48	-	150	150
Applied Research and Communication Fund	Development of a research project	-	24	-	-	-	-
Applied Research and Communication Fund	Rental contract	45	45	-	-	-	-
		-	-	-	-	241	225
IR Communications		<b>105</b>	<b>235</b>	<b>48</b>	<b>-</b>	<b>391</b>	<b>375</b>

### *Transactions with directors and other members of the management*

Total amount of the remunerations and social contributions included in the expenses for external services is as follows:

	<b>2011</b>	<b>2010</b>
Board of Directors	206	177

## 18. Events after the balance sheet date

There were no events after balance date requiring corrections of the financial statements or disclosures.