

CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 2016



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
2016 ANNUAL REPORT**



Drawing: Anri Koulev

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5 Alexander Zhendov St., 1113 Sofia, Bulgaria

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 Europe through impact on policy and civil society.

“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

In 2016, the Center for the Study of Democracy continues to be a driver of societal change that reveals the major challenges of Bulgaria's transition and promotes policy reforms to address them based on cutting-edge knowledge and research. During the year, CSD achieved the highest impact and received the greatest recognition in three important areas:

- **Monitoring and tackling state capture.** CSD's Corruption Assessment Report 2016 – *State Capture Unplugged: Countering Political Corruption in Bulgaria* has been the most authoritative account of this insidious form of corruption in the country, combining pioneering monitoring techniques and specific sectoral examples. The Council of Ministers held a special session dedicated to the report findings and has committed to concrete numerical targets for lowering corruption in Bulgaria. CSD has continued to set the agenda in this domain in the country, though no substantial progress has been observed.
- CSD has worked with international partners to chart one of the first comprehensive roadmaps towards designing better monitoring and evaluation instruments for state capture internationally. CSD has proposed and piloted in Bulgaria and Italy an **innovative anticorruption policy evaluation tool, MACPI**. It has provided anticorruption managers with assessment of the policy and implementation gaps within their institutions. MACPI has been highly appraised by Directorate-General Migration and Home Affairs of the European Commission, as well as by public institution leaders in Bulgaria and Italy.
- **The regional anticorruption initiative SELDI.** CSD has established itself as the leader of the largest indigenous anticorruption coalition in Southeast Europe, which draws upon the work of some 30 non-governmental organizations from 11 countries in the region. In 2016, SELDI delivered its Regional Anticorruption Report *Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe*. The report has been widely seen as one of the most authoritative assessments of this domain. Its policy recommendations have been taken on board by the European Commission and by other international agencies. SELDI signed Memoranda of Understanding with a series of anticorruption institutions in SEE, which can serve as important spring boards for further engagement and change. SELDI has become instrumental for expanding CSD's work on tackling organized crime and judicial reform in the region. CSD has worked with local partners in the Western Balkans to increase their capacities to monitor organized crime and judicial reform and to engage public authorities to deliver policy changes in these areas.
- **Assessing the risks of Russian economic footprint in Central and Eastern Europe.** CSD has been among the leaders in providing forward thinking on undemocratic tendencies in Europe related to the resurgent assertiveness and hostile Russian involvement in the region. CSD has developed and applied for

the first time a solid methodology for assessing the extent and risks of Russia's economic footprint in Central and Eastern Europe, as well as the amplifiers that Kremlin has deployed to exploit governance weaknesses in CEE countries to gain political influence. Together with its partners from the Center for Strategic and International Studies, CSD published what has become the most acclaimed analysis in this domain *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*. The report has been featured in key international media outlets, while CSD has been asked to provide briefings to key EU and NATO institutions and partners.

In line with its long-standing commitment to address the most pressing issues on the public policy agenda at national and European level, the Center also made further insights for public policy making in areas such as countering organised crime and violent extremism, fundamental rights, migration, and energy security.



Sofia, January 2017

Dr. Ognian Shentov
Chairman

Part One

Program Reviews

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Law Program

In 2016, the Law Program's efforts were focused on four main topics: countering organized crime and terrorist networks, judicial and regulatory reform, penitentiary reform, and fundamental rights.

- **Countering organized crime and terrorist networks.** CSD joined the international initiative *Understand the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals* (TAKEDOWN). TAKEDOWN is a joint effort of 18 public institutions, research institutes and private companies from 13 countries aimed at creating new insights on organized crime and terrorist networks by using a multidimensional modelling approach including social, psychological, economic and cultural aspects as well as prevention activities and response approaches.
- **Judicial and regulatory reform.** CSD reiterated the need for an overall reform of the system of official registers in Bulgaria and in particular for streamlining the registration of non-profit legal entities and reducing the administrative burden stemming from registration procedures. Parallel to involvement in drafting the legislative amendments for transferring the register of non-profit legal entities from the courts to the Registry Agency, CSD experts published several studies on improving the operation of other registers containing data of such entities.
- **Penitentiary reform.** CSD continued to promote research-based solutions to the existing problems in the penitentiary system. A report on the situation of drug users in prison identifies existing gaps in law and practice and offers reform measures.
- **Fundamental rights.** As a member of the FRANET network of the EU Fundamental Rights Agency, CSD collected data and information for the Agency's comparative studies. Research and data collection included areas such as minimum age requirements in respect to the rights of the child, migration detention of children, fundamental rights safeguards and remedies related to the use of surveillance by intelligence services, protection of media professionals and incitement to hatred, rights of crime victims to have access to justice, rights of migrants and asylum seekers, and drivers and barriers for independent living of persons with disabilities.

I. Countering organised crime and terrorist networks

Organised crime and terrorist networks are a major challenge and many differ-

ent stakeholder groups are involved in creating awareness, preventing, identifying and intervening in case of risk or threat. To contribute to the better understanding of this phenomenon CSD



During the TAKEDOWN kick-off meeting in Vienna



joined the international initiative *Understand the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals (TAKEDOWN)*. **TAKEDOWN** is a joint effort of 18 public institutions, research institutes and private companies from 13 countries aimed at creating new insights on organized crime and terrorist networks by using a multidimensional modelling approach including social, psychological, economic and cultural aspects as well as prevention activities and response approaches.

During the initiative's kick-off meeting on 12-14 September 2016 in Vienna, Austria, representatives of all partner organizations discussed the overall planning of activities and the fundamental components of the research. Through

parallel discussion and brainstorming sessions, an effective distribution of the tasks for the early stages of the action was secured. The roles and responsibilities of each partner in the upcoming tasks were described and clarified, and the initial steps for producing the first outputs were formulated.

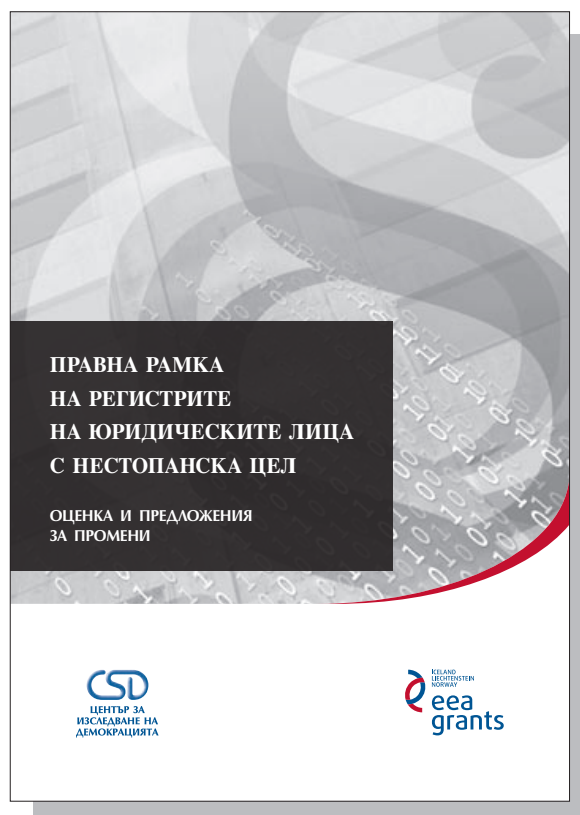
During the initial stages of the initiative, CSD took part in designing the template for the collection of stakeholders and key representatives of particular groups. The objective of collecting stakeholders is to compile a Europe-wide sample of informed respondents for the empirical research. Stakeholders include first-line-practitioners (teachers, social workers, healthcare workers and community police officers), researchers, policy makers, security software developers and law enforcement agencies. At a later stage, the collection of stakeholders and representatives will serve for validating the developed toolkits and digital platform.

II. Judicial and regulatory reform

CSD continued to contribute to the implementation of an overall **reform of the system of official registers** in Bulgaria. In 2016, the efforts in this area focused on **streamlining the registration of non-profit legal entities** and on advocating for the adoption of the legislative amendments submitted to the parliament in October 2015. The Law Program experts who were involved in the drafting process participated in a series of consultations with the relevant stakeholders and in several awareness and advocacy events. The Law Program Director Dr. Maria Yordanova also took part in the public hearing on the proposed changes, organised by the parliament on 8 March 2016.

Parallel to the discussions on the draft amendments, which concern mainly the court register of non-profit legal entities and the central register of those operating for the public benefit, CSD continued to explore the opportunities for expanding the reform and improve the operation of other existing registers. Following the review of the legal framework, published at the end of 2015, the Law Program experts made an assessment of the operation of different registers. The results of the assessment, which combined desk research, interviews with register operators and an online survey among non-profit legal entities, were published in the report *Assessment of the Operation of Existing Registers on Non-governmental Organizations in Bulgaria*.

Based on the research findings and the results of the assessment, the Law Program experts developed the brochure *Legal Framework of Registration of Non-profit Organizations: Assessment and Recommendations for Reform*. It offers detailed information about the different registers on non-profit legal entities, including registration procedures, mandatory re-



quirements, documentation, fees, accessibility of the registered data, etc. The brochure also includes a set of policy recommendations aimed at improving the existing system of registers, making the registered information more reliable and accessible, facilitating the exchange of data between different registers and decreasing the administrative burden on registered organizations.

The brochure was presented at a roundtable entitled *Improving the Registration of Non-profit Legal Entities*. (24 March 2016), with representatives of the government, the Ministry of Justice, the Registry Agency, NGOs, the IT sector and the media, who shared their experience with the current registration system and discussed the proposed reforms.

To generate support for these reforms among policy makers, CSD summarized the findings and recommendations from the brochure into a Policy Brief *Registration of Non-profit Organiza-*

“Improvement of registration of non-profit organizations (NPOs) is a necessary precondition for strengthening civil society and increasing its transparency and accountability. An easy and simple registration procedure, with no duplication of information and a functioning automatic exchange of data, would allow the civic sector to concentrate on its substantive priorities. The registration of NPOs and its subsequent maintenance determines to a large extent the relations between those organisations and the state authorities, and is an indicator of the will of decision makers to lighten excessive administrative burden and, thus, facilitate the civil sector’s development. The concept offered and the recommendations for legislative changes provide support to institutions in achieving that aim.”

Source: Legal Framework of Registration of Non-profit Organizations: Assessment and Recommendations for Reform.

tions: Legal Framework and Recommendations for Reform. The policy brief emphasizes on the conclusions that the legal framework governing the registration of non-profit organizations consists of too many different laws and regulations, which are often not aligned with each other, a significant part of the information is duplicated, and applicants

are often required to repeatedly present the same information and documents. It also offers a set of recommendations for legislative amendments and practical measures aimed at overcoming the existing deficiencies.

As a result of the significant contribution of civil society including the ef-



From left to right: Elena Markova, Executive Director of the Registry Agency, and Stefaniya Matarova, Deputy Executive Director of the Registry Agency sharing their views on the proposed transfer of the register on non-profit legal entities to the Registry Agency



forts of CSD, the draft amendments were adopted in September 2016 and will enter into force on 1 January 2018. The reforms are expected to solve the most urgent problems in the registration of non-profit legal entities and to increase the transparency and accountability of the non-profit sector in the country. The transfer of registration of NGOs from the courts to the Registry Agency will result in faster procedures, electronic submission of documents, electronic services, lower fees and decreased administrative burden on NGOs. The establishment of a central electronic register of NPOs will make the registration of NGOs in the BULSTAT register no longer necessary. The same will apply for the registration of public-benefit NGOs in the Central Register of Public-Benefit NGOs at the Ministry of Justice. This will put an end to the existing dualism in the registration regime and the cases of organisations being registered as public benefit NPOs by the court, but not registered in the central register and thus

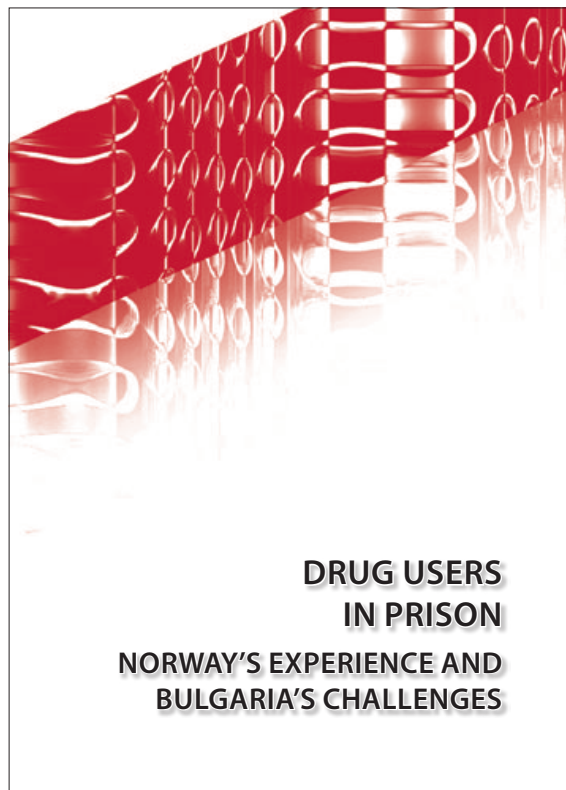
not obliged to observe the transparency and accountability rules. The registration of NGOs in some of the other registers, particularly in those serving only information purposes, will also become unnecessary.

The new registration system will increase transparency and accountability of all NGOs. The information about their activities, management, funding and expenditures will become publicly accessible. At the same time, courts will be relieved from dealing with cases that are not complex, which will allow them to invest more resources on their main task to administer justice. The improvement of the legal framework will therefore benefit not only the users of the information but also the registered organisations and the society as a whole.

Members of the Law Program continued to provide expert assistance to the Ministry of Justice in drafting new legislation. The Law Program Director Dr. Maria Yordanova and the Research Fellow Miriana Ilcheva were part of the working group tasked with the drafting of amendments to the *Criminal Procedure Code* and the *Law on the European Arrest Warrant* aimed at transposing *Directive 2013/48/EU of the European Parliament and of the Council of 22 October 2013 on the right of access to a lawyer in criminal proceedings and in European arrest warrant proceedings, and on the right to have a third party informed upon deprivation of liberty and to communicate with third persons and with consular authorities while deprived of liberty*. Dimitar Markov, Senior Analyst at the Law Program, participated in the working group on drafting amendments to the *Criminal Code* aimed at improving the legal provisions on a number of offences such as drug-related crime, smuggling and illegal migration, corruption in the private sector, etc.

III. Penitentiary reform

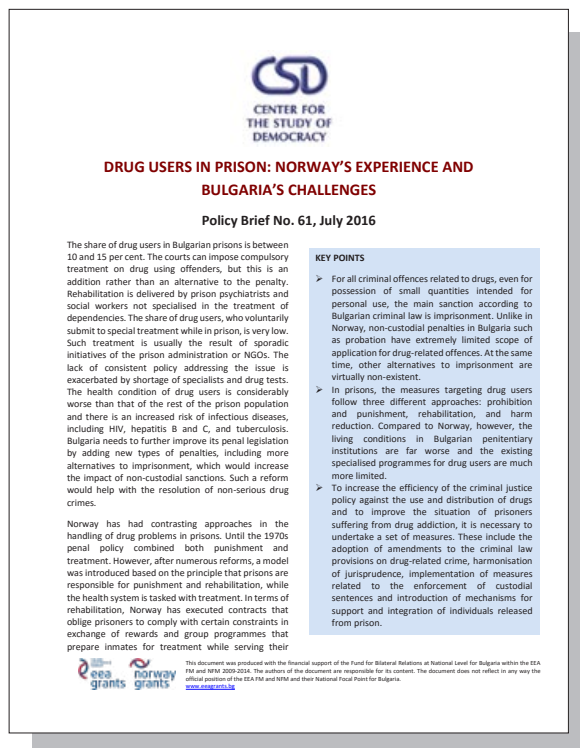
In the area of penitentiary reform the Law Program focused its efforts on helping Bulgarian authorities to handle deficits in the prison system with regards to a **particularly vulnerable group of offenders and inmates – drug users**. Under various estimates, drug users constitute between 10 and 15 % of the prison population. Both during their stay in prison and after release, drug users fall within a vacuum in regards to adequate treatment. To help address this problem, CSD in cooperation with the Department of Criminology and Sociology of Law of the University of Oslo explored the opportunities for transferring to Bulgaria promising practices from the Norwegian experience in dealing with drug users who have committed a criminal offence. A comprehensive assessment of the legal framework and the practical measures for drug offenders in Bulgaria was combined with an overview of the Norwegian approach.



The findings of the research were published in the report *Drug Users in Prison: Norway's Experience and Bulgaria's Challenges*. The report offers detailed analysis of the policies on drug use in Bulgaria and Norway, the criminal law provisions and case law on drug-related crime, the alternatives to imprisonment for drug users and the available measures for drug users in prison. Annexed to the report is an overview of measures and practices from other countries. Based on the results of the analysis, the report offers a set of policy recommendations for improving the legal framework of drug-related crime and for better treatment of drug offenders sentenced to imprisonment in Bulgaria.

To further encourage the debate, CSD brought together the relevant stakeholders at a round table discussion *Punishment vs. Treatment: The Situation of Drug Users in Prison*. Professor Hedda Giertsen and Ida Nafstad from the Department of Criminology and Sociology of Law at the University of Oslo talked about the evolution of drug policies in Norway and discussed the criminal prosecution of drug offenders. During the discussions, officials from Execution of Penalties Directorate General of the Ministry of Justice, experts from the National Addiction Center, judges, public prosecutors, lawyers, academics and representatives of NGOs shared their experience and debated on the possibilities for addressing the identified gaps. Among the main unresolved problems to which participants pointed out were the lack of accurate statistics on drug users in prison, the inability to serve part of the sentence in an institution for drug users outside prison, and the lack of mechanisms to encourage inmates undergoing therapy in prison to continue the treatment after release.

To bring the research findings and the policy recommendations to the atten-



tion of policy makers, the results of the analysis together with the proposed reforms and measures were summarized in the Policy Brief *Drug users in prison: Norway's experience and Bulgaria's challenges*. The policy brief includes an ex-

tended list of policy recommendations, some of which were suggested by participants at the round table discussion. It was presented to senior representatives of the key stakeholders to enable them to make better informed decisions when designing and implementing policies related to drug offenders and drug-related crime.

In 2016, a collection of country reports on the **penal policies on drug-related crime** was published by the Greek association Diogenis under the title *Sentencing of Drug Offenders: Legislators' Policy and the Practice of the Courts in Southeast Europe*. The book includes a comparative report and country-by-country overview covering seven countries from Southeast Europe. The country report on Bulgaria, authored by the Law Program experts Dimitar Markov and Maria Doichinova, gives an overview of the national legislative policy on drugs, the crime rates of drug-related offences on macro (state) and micro (court) level, and the individualization of imposed sanctions. It also offers proposals for future amendments



From left to right: Professor Hedda Giertsen of the Department of Criminology and Sociology of Law at the University of Oslo (Norway) and Dr. Maria Yordanova, Director of the Law Program of the Center for the Study of Democracy during the round table discussion on drug users in prison

of legislative drug policy and court sentencing practice.

IV. Fundamental rights

In 2016, the Law Program, together with the Sociological Program, continued to explore the **role of the civic sector as a guarantee for equal rights of four vulnerable groups** – foreigners seeking international protection, prisoners, victims of human trafficking and victims' domestic violence. Active online presence of the research findings and practical measures proposed was ensured by dedicating a special section on the CSD website and a Facebook group to the initiative.

The Law Program research team continued its dedicated meetings with state institutions and NGOs to discuss its practical ideas for improving the co-operation of decision makers and civil society in supporting vulnerable groups.

Stakeholders were represented on expert, as well as managerial level, and gave valuable insights into the practical realities of working with prisoners, migrants and victims of crime and violence, and especially with children from these groups. As a last formal round of consultations, a workshop was held on 25 February 2016, entitled *Civil Society in Support of Vulnerable Groups*. A number of new developments were discussed, such as the update of the national referral mechanism on victims of trafficking and the new regulations on public consultations and impact assessment of legislation, where NGOs can take an active part. Participants emphasized the need of sustainable financing and the role of NGOs as mediators, especially in the education, social work and reintegration of prisoners. CSD experts suggested that the state should assess the resources needed to support vulnerable groups and identify cases where care could be delegated to NGOs.



Civil Society in Support of Vulnerable Groups Workshop



From left to right: Commissioner Dr. Blagorodna Makeva and Dr. Maria Yordanova at the conference Participation of the Civil Society in Supporting Vulnerable Groups

The *Concept for More Effective Civic Participation in Supporting Vulnerable Groups* summarizes the recommendations for enhancing the involvement of civil society organizations in assisting vulnerable groups. It deliberated on the intensity of co-operation among stakeholders in regards to the communities under consideration, the means to enhance co-ordination of institutions and organizations on different levels, and NGO participation in law making and policy formulation. Mechanisms were recommended for collection of data under unified criteria, elaboration of co-ordination instruments and legislative steps to strengthen NGOs' position in legislative working groups and various consultative bodies. Concrete reform proposals were put forward for the penitentiary system, the mechanisms for protection of domestic violence and human trafficking victims, and the infrastructure dealing with foreigners in need of international protection. A roadmap on legislative and practical



**КОНЦЕПЦИЯ
ЗА ПО-ЕФЕКТИВНО
ГРАЖДАНСКО УЧАСТИЕ
В ПОДПОМАГАНЕТО
НА УЯЗВИМИ ГРУПИ**

measures to support the four target vulnerable groups in their relation-

ships with institutions was appended to the concept.

The concept was presented at a conference *Participation of the Civil Society in Supporting Vulnerable Groups* held on 21 April 2016 with the participation of institutions and NGOs, magistrates and attorneys. In her opening remarks Dr. Blagorodna Makeva, deputy director of the National Police General Directorate with the Ministry of the Interior, emphasized the links between the work of NGOs in supporting vulnerable groups and the functions and initiatives of the Interior Ministry. Dr. Makeva noted the need to train institutional representatives on the vulnerabilities of various communities and to collect data under unified criteria. Denitsa Sacheva, NGO expert (later appointed as deputy minister of labour and social policy), elaborated on the necessity to store and build upon the non-governmental and volunteer experience gathered, to exchange information, to have mutual empowerment of institutions and NGOs and diversified financing. CSD experts, magistrates and NGO activists presented latest developments, such as some proposed amendments in the legislation on execution of penalties, typical problems faced by foreigners seeking international protection, current problems of victims of crime and the impending ratification of the Istanbul Convention.

The Law Program also prepared four **memoranda with recommendations** to the various stakeholders, involved in improving the status of each of the four vulnerable groups. The documents contained various proposals of decision makers, practitioners and civil society organizations and were widely distributed among relevant institutions and civil society actors.

CSD findings on the co-operation of decision makers and NGOs in support

of vulnerable groups were presented at two policy fora. Research fellow Miriana Ilcheva took part in a panel on the role of civil society, volunteerism, humanitarianism and political action at the international conference *Migration Challenges in Southeast Europe: Policy Options for Building a Strong and Free Europe*, which took place on 7-8 April 2016 at the American University in Bulgaria. CSD conclusions were also included in the conference's final document. Findings on foreigners in need of international protection were also presented in a forum with the Conference of INGOs with the Council of Europe, which took place on 17 May 2016 in Sofia.



In line with its long-term fundamental rights research priority, in 2016 CSD continued exploring the **realities of free movement from the viewpoint of young Europeans** who exercise or plan to exercise this right within the European Union. As part of the pan-European initiative *On the Move*, the CSD research team conducted interviews with young Bulgarians wishing to leave Bulgaria or having returned to the country, as well as policy discussions with the Administration of the President of Bulgaria, the State Agency for Bulgarians Abroad, the Ministry of Youth and Sports and several NGOs active in the area. The resulting country report focused on the trends of young Bulgarians to move across Europe and the push and pull factors justifying their routes. Relevant policies and institutional initiatives were also discussed in detail. The Center's experts took part in preparing an analysis of individual experiences of young Europeans moving

throughout the continent, cross-country reports and a comparative report with recommendations to national and EU stakeholders.

The year 2016 saw a new expansion in the cross-border dimension of CSD's long-term research and advocacy focus on the **improvement of status of victims of crime and violence**. In an initiative on developing EU law-compatible practices on the identification, assessment and referral of victims, involving a partnership from six EU Member States, the Center's experts collected the opinions of magistrates, police officers, social and child protection workers, as well as medical specialists, on dimensions of supporting victims in the criminal process and in their treatment and reintegration in society. The compatibility of national law and practice with EU norms was assessed via a special checklist. Legislative and practical gaps were pointed out to serve as basis for trainings to be delivered to various stakeholders in the following year.

Law Program experts took an active part in two initiatives of the Center's Sociological Program related to **forced return of third country nationals** and a national study on **domestic and gender based violence** and elaboration of the victim support model. Opinions were given on relevant legislative norms and legal expertise was provided in the elaboration of methodologies, guidelines and policy recommendations.

As a member of the FRANET multidisciplinary network of the **EU Agency for Fundamental Rights (FRA)** CSD continued to research different aspects of fundamental rights in Bulgaria. In addition to the contribution to FRA's annual report on fundamental rights in the EU, in 2016 CSD produced studies on the minimum age requirements in

respect to the rights of the child, migration detention of children, fundamental rights safeguards and remedies related to the use of surveillance by intelligence services, protection of media professionals and incitement to hatred, and rights of crime victims to have access to justice.

In the context of the migration crisis, throughout the year CSD delivered to FRA monthly data collection reports on the migration situation in Bulgaria. The reports were compiled on the basis of regular interviews with stakeholders and included information on the number and profile of new arrivals, criminal proceedings against migrants and smugglers, reception conditions and detention, responses in law, policy and practice, social response and hate crime incidents. Since March 2016, the monthly reports were accompanied by focus reports on specific issues, such as healthcare, human trafficking, gender, impact on local communities, people with disabilities, family reunification, and separated children. The reports from all countries participating in the monthly data collection exercise are published on the [FRA website](#).

Within the framework of FRANET, CSD explored the drivers and barriers related to the transition from institutional care to community-based support of persons with disabilities. The work is a follow-up to the data collection report on independent living of persons with disabilities, prepared by CSD in 2015. A series of face-to-face interviews and focus groups with national and local level policy makers, social service providers, first-line practitioners and persons with disabilities were done in seven different localities (Sofia, Dobrich, Stara Zagora, Lovech, Sandanski, Plovdiv and Vidin). The next stage of the research, planned for 2017, will take place in only one locality (Plovdiv) and will focus on

in-depth case studies and validation of findings.

* * *

The Law Program continued to be actively involved in CSD's work in the area of good governance and anti-corruption through:

- Contribution to CSD's annual Corruption Assessment Report *State Capture Unplugged: Countering Administrative and Political Corruption in Bulgaria*;
 - Development, in cooperation with experts from the Economic Program and the Sociological Program, of an anti-corruption plan for the Bulgarian Ministry of Education and Science;
 - Research and data collection within the framework of the Local Research Correspondents on Corruption (LRCC) Network. In addition to their contribution to the reports and periodic updates, Law Program experts delivered a comparative overview of the two draft anti-corruption laws developed by the government;
 - Participation in the [second annual meeting of the Southeast Europe Coalition on Whistleblower Protection](#). The event, organized by the Regional Anti-corruption Initiative and Blueprint for Free Speech with the support of the Regional Cooperation Council, took place in Zagreb on 14 November 2016 and brought together civil society organizations, public-interest activists and investigative journalists from the countries in Southeast Europe. The Law Program Director Maria Yordanova presented the status and outlook for the legal regulation of filing alerts for corruption and whistle-blower protection in Bulgaria. CSD joined the Southeast Europe Coalition on Whistleblower Protection in 2016.
- Peer review of the study *Right to a Reasoned Judgment: Practice of the European Court of Human Rights*. The study was developed in the framework of the *Initiative for Open Judiciary* and is aimed to support democratization and EU integration of Montenegro by empowering civil society to actively take part in judiciary reform. The initiative is a joint effort of CSD and civil society organizations from Montenegro and Serbia.

The Law Program Director Dr. Maria Yordanova took part in the round table discussion *Countering Extortion Racketeering in Bulgaria: Examining the Evidence and Devising Appropriate Measures*, organized by the Center's Security Program on 27 October 2016. In her presentation, Dr. Yordanova introduced the general legislative framework for fighting organised crime, focusing in particular on the protected witness. She outlined a number of recommendations for improving the effectiveness of the use of protected witnesses and reviewed the possibilities of introducing promising practices from other countries, such as the so-called 'collaborator of justice'.

At the invitation of the Institute for Global Leadership, Dr. Maria Yordanova participated in the 31st Annual Norris and Margery Bendetson EPIIC International Symposium on *Europe in Turmoil* which was held at Tufts University (Boston) on 18-21 February 2016. She took part in the panel titled "Europe in the Global Order" where she delivered an Op-Ed on *The Role of the EU in international cyber policy as part of the future global order*. She also made a presentation on *The Role of the EU in safeguarding fundamental rights* and joined the discussion in a breakout session on *Europe and Human Rights* led by Erin Kelly, an Associate Professor of Philosophy at Tufts University.

Economic Program

In 2016, the Economic Program focused its work on the following areas:

- **Energy market liberalization and energy security.** CSD continued to analyze the energy security challenges for SEE: excessive dependence on energy imports, reliance on a limited number of energy suppliers, high energy poverty levels, unsustainable energy intensity and demand; and persistent energy governance risks. CSD engaged in an initiative for the development of a *Long Term Electricity Roadmap for the SEE*, and performed a poverty and social impact assessment of the *National Program for Energy Efficiency of Multifamily Buildings*. Drawing on its expertise in energy security and good governance, CSD, in cooperation with the Center for Strategic and International Studies (CSIS), published a study *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*. It became the most downloaded publication of the year for CSD and CSIS.
- **Good governance, anticorruption, and state capture.** CSD piloted a feasibility study on designing metrics for the state capture phenomenon. CSD continued its work on fraud and corruption risks in the area of public procurement, the nexus between European financing and anti-corruption, and the policy options for countering money laundering. The Southeast Europe Leadership for Development and Integrity (SELDI) initiative, coordinated by CSD, was able to further its impact in the SEE region. In its flagship report *Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe*, SELDI underlines that in none of the countries in the region has there been a clear sustained policy breakthrough in anticorruption, though efforts to deliver technical solutions and to improve the functioning of the law enforcement institutions have persisted. CSD continued to deepen its theoretical and empirical capacity in anti-corruption and good governance through its participation in ANTICORRP.eu and the EU Anticorruption Report network.
- **Hidden economy.** CSD and Vitosha Research continued their good cooperation with the University of Sheffield Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe. In the framework of the SELDI initiative, CSD experts and their partners from eight SEE countries prepared a backgrounder report, a policy brief and national Hidden Economy Fact Sheets presenting key findings on the manifestations, causes and impacts of the hidden economy and undeclared labour in the SEE countries in 2016.
- **Competitiveness and knowledge economy.** CSD continued analyzing the barriers to the Bulgarian business, provided recommendations for improvement of the overall economic competitiveness and contributed to the

development of the *2016 IMD World Competitiveness Yearbook*. CSD experts participated in the development of the annual *Innovation BG* report, drawing key recommendations for improving the national innovation policy in Bulgaria.

I. Energy governance and energy security

In 2016, the Economic Program continued to analyze the deficits in the energy sector governance and the [EU-Turkey Energy Dialogue](#). The topic is of particular importance, since at the moment Turkey is at a pivotal point in its economic development, whereby it is transforming itself into a modern industrial economy. As with other industrializing economies, Turkey is experiencing rising natural gas consumption wedded to supply challenges. However, Turkey, with the development of proactive policies, is able to change the current paradigm of industrial inefficiency (such as rising energy intensity rates) and promote economic competitiveness. Turkey has also become a crucial factor for the completion of the EU-backed Southern Gas Corridor, which for Europe is a priority project to diversify energy imports and make Europe less dependent on Russia. In the context of the EU Energy Union initiative, Turkey is placed strategically to assist in its goals of bringing about energy market integration and meaningful diversification of sources in the Black Sea region.

Strengthening the EU-Turkey Energy Dialogue on Energy Security and Governance

Despite EU's activism, Turkey and the countries in the region still pursue mostly a bilateral approach to energy security, which is insufficient for the development of a strategic regional energy system. The latter erodes efforts for a multilateral (pan-regional) approach to the

region's energy challenges, and puts at stake Europe's opportunity to diversify its energy supply. In that sense, there is a need for developing a common understanding for the constraints stemming from the current segmented approach to energy security and governance issues in the region and the identification of the multilateral mechanisms that can be utilized to strengthen the overall energy security architecture. The latter requires the deeper engagement of civil society organizations, which play a crucial role in advocating strategic energy policies improving the security of supply and the governance of the sector.

In partnership with the Economic Policy Research Foundation of Turkey (TEPAV) and the Mediterranean Energy Observatory (OME) the CSD prepared a policy brief on [Ensuring Effective Cooperation between EU and Turkey to Foster Energy Security](#). The analysis contains a list of practically-oriented policy recommendations to accelerate the process of regional market integration, the transfer of the EU energy acquis in the Turkish energy sector framework and the completion of critical cross-European energy diversification projects. The policy advocacy effect of the proposals have been strengthened by the active participation of the Turkish Oil and Gas Association (PETFORM) and the participation of key energy Turkish and EU policy-makers in two workshops in Ankara and Istanbul.

The policy brief underlines that the successful creation of a European energy union will not be possible without the active involvement of Turkey. The latter is going to play a vital role as a natural



Workshop: Ensuring Effective Cooperation between EU and Turkey in Fostering Security of Energy Supply, Ankara. From left to right: Mr. Volkan Özdemir, Chairman of EPPEN Energy, Dr. Todor Galev, Senior Analyst, CSD, Ms Bengisu Özenç, TEPAV's Macroeconomic Studies Program Director, Mr. Eser Özgül, Turkish Oil Platform (PETFORM) Secretary General, and Mr. Martin Vladimirov, Analyst at the Economic Program of CSD

gas trading hub for future alternative natural gas supply from the Caspian region, East Mediterranean and the Middle East. Similarly, Turkey will benefit from the development of the Energy Union because it can transform itself in a major energy-trading hub based on alternative gas supplies that will satisfy domestic demand, while the excess supply could be re-exported to Europe. Still, Turkey's energy sector transformation towards becoming part of the planned European internal energy market is happening only very slowly. Given that the inevitable changes will have an effect on both industries and individual consumers, politicians have been reluctant to sign on the dotted line and initiate the final stages of liberalization. The analysis also notes that Turkey is one of the most vulnerable countries from possible energy supply cuts, especially during the

seasonal peak demand period. Most of oil and gas and half of coal supply came from imports leading to serious macroeconomic imbalances and producing a negative impact on business and investment confidence.

The workshop *Ensuring Effective Cooperation between EU and Turkey in Fostering Security of Energy Supply*, organized by the Economic Policy Research Foundation of Turkey (TEPAV), the Center for the Study of Democracy (CSD), the Turkish Oil and Gas Association (PETFORM) and the Mediterranean Energy Observatory (OME) on 8 September 2016 in Ankara, Turkey, deepened the discussion on these issues. Senior Turkish and EU energy policy-makers took part in the event and spoke on the Turkish energy security risks and challenges before the successful integration of Turkish energy

sector in the Energy Union framework. The participants noted the crucial importance of the Turkish geopolitical position for the future of the Energy Union. They emphasized that the countries in the Black Sea region need to overcome their focus on bilateral energy cooperation, which is insufficient for developing a strategic pan-European partnership agenda. More than ever, market integration would require stronger policy cooperation that goes beyond inter-governmental talks to include businesses and civil society organizations (CSOs) in the energy dialogue. The Director of TEPAV's Macroeconomic Studies Program, the President of a Network Operation Group at the regulator, EPDK and the Business Development Manager at GAMA Energy were prominent speakers at the event.

Energy Market Liberalization and Regional Market Integration

Competition in the energy sector needs to be reinvigorated if an efficient energy hub is to emerge in Turkey. This

was one of the conclusions of the workshop on *Energy Market Liberalization and Regional Market Integration*, organized in Istanbul on 10 October 2016 on the sidelines of the World Energy Congress (WEC).

The CSD experts pointed out that the cooperation between private and public actors would be crucial to the market liberalization, the reduction of energy security risks and the improvement of regional energy cooperation. However, energy cooperation in the SEE region and Turkey is mostly in the electricity sector, while in natural gas there is competition between countries. The participants noted that the EU has the objective of creating a gas hub in the Mediterranean region and currently Turkey, Bulgaria, Greece, Italy, Cyprus, and Egypt are vying for this position. However, one of the big hurdles is the limited amount of different natural gas sources available in the region. BOTAŞ' virtual monopoly on the Turkish gas market was underlined as one of the biggest impediments to the gas market liberalization. The discus-



Energy Market Liberalization and Regional Market Integration Workshop, Istanbul

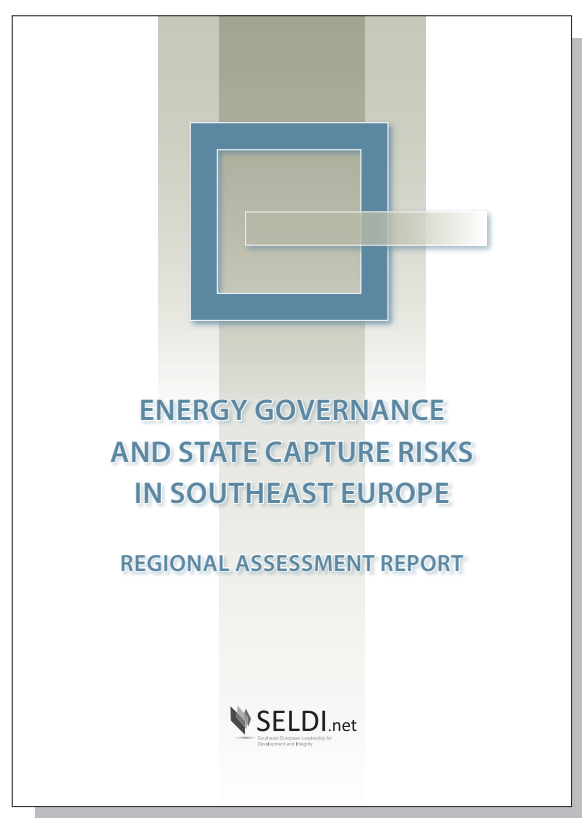
sants stressed that any successful gas trading hub instituted in Turkey must have two fundamental aspects: the ability to import and export gas to the market, and a mature consumption centre. Turkey has the potential to satisfy both requirements. However, regional gas market integration would also depend on the creation of a new regulatory framework that encourages competitive entrants. The Director of Hydrocarbons at the Mediterranean Observatory for Energy (OME), a member of the Turkish National Gas Assembly and Commercial Operations Manager of Trans Anatolian Natural Gas Pipeline Project (TANAP), PETFORM's Secretary General, and the International Energy Agency's Desk Officer for Turkey took part in the event.

Development of a Long Term Electricity Roadmap for the SEE region

The SEE region consists of two distinct groups of countries – EU members and Western Balkan countries aspiring for membership. In spite of the distinct legal environment and EU membership status, they also share some important features from the electricity sector point of view. They have difficulties to access low cost financing for energy projects, so RES developments are seen as the cause of increasing burden on electricity consumers. In addition, these countries can show less intention to regional cooperation due to historic reasons and also to their geographical location.

The SEERMAP initiative, which began in September 2016 with a kick-off workshop in Belgrade, would contribute to the development of a *Long Term Electricity Roadmap for the SEE region* including all Western Balkan countries and adding Bulgaria, Greece and Romania to complete the analysis of the whole SEE region. CSD, as the partner organisation from Bulgaria, is currently supporting

the application of state of the art electricity and gas sector market models, renewable deployment model and regional electricity network model in the timeframe of 2050. Various renewable and infrastructure scenarios are being tested, underpinned by consultation with local experts over the assumptions, data validation and scenario definitions.



The SELDI initiative, coordinated by the Center for the Study of Democracy, also focused on the issue of energy governance and related corruption and state capture risks. The SELDI background report *Energy Governance and State Capture Risks in Southeast Europe: Regional Assessment Report*, the policy briefs *Transparent Governance for Greater Energy Security in CEE* and *Countering Energy Governance and State Capture Risks in the Western Balkans and Turkey*, as well as in the *SELDI Energy Governance Fact Sheets* presented summarized information on key energy sector governance challenges, state of

electricity sector liberalisation, financial ratios of leading energy companies and progress of energy acquis implementation.

The energy sector holds specific socio-economic power that is exposed to almost self-explanatory corruption risks. However, determining the occurrence or actual appearance of corruption in public procurement and public institutions in this sector poses significant challenges. In addition to being one of the most vital economic sectors, energy is also one of the least transparent. Of particular concern are also the **energy security challenges for SEE**: excessive dependence on energy imports; reliance on a limited number of energy suppliers; high energy poverty levels; unsustainable energy intensity and demand; and persistent energy governance risks.

The corporate governance of state-owned enterprises (SOEs) is characterized by political meddling in the day-to-day operations; non-transparent staffing procedures; prevalent political affiliations; conflicts of interest; and limited management transparency and accountability. CSOs and governments should look for several red flags: unfavorable financial indicators of SOEs, debts, and public procurements that prioritize a single company, especially in the construction of sometimes unnecessary infrastructure.

Energy affordability

Energy poverty among the population and the subsequent deterioration of the energy affordability experienced by the Bulgarian households have remained important research and policy advocacy issues for CSD in 2016. The Center recognizes both topics and the low level of energy efficiency of housing stock as the most crucial social

problems that need to be tackled in the drive for greater national energy security. Energy poverty is defined as having two components – affordable access to electricity and reliance on traditional uses of biomass (mainly wood and coal, and inefficient stoves for burning them). Bulgaria experiences serious problems regarding both components. In 2010, in a CSD study over a third of households reported being unable to afford keeping their homes adequately warm, and roughly 60 % reported using wood and coal as a major heating source. The 2011 census data confirmed the latter – nearly 54 % of homes in Bulgaria use wood and coal for heating, while in rural areas the respective share is 95 %. Subsidized electricity prices, kept artificially low due to political reasons, have made a considerable share of people, particularly in big cities, overly reliant on electricity for heating, while the majority of the population uses non-efficient electricity appliances.

In 2016, CSD continued to work on the nexus of these issues, performing a poverty and social impact assessment of the *National Program for Energy Efficiency of Multifamily Buildings* on behalf of the World Bank. Launched in early 2015, the Program has already contracted the implementation of energy efficiency and structural renovations measures with nearly 2000 buildings across the country. The analysis conducted by CSD has a twofold aim: to estimate what is the impact of the Program on vulnerable groups (low income households, elderly people, and ethnic minorities), and to determine the factors that have to be included into the design of future government programs in order to ensure they are socially acceptable, inclusive, economically effective, and politically feasible.

The initial research findings show several important developments in the pat-

terns of individual and collective energy behavior in the last few years: i) Considerable increase of the share of households that had implemented energy efficiency measures financed by themselves as compared to the 2011 census data, which pointed out to an important change in people's attitudes towards energy efficiency; ii) Successful implementation of the Program as of the end of 2016 despite the initial delay and administrative and practical difficulties that had to be overcome in the process of establishing effective cooperation between the Ministry of Regional Development and Construction Works, municipalities, the Bulgarian Bank for Development and the other stakeholders involved. The work of the Ministry in particular has been crucial for success despite the limited human and administrative resources assigned for the management of the program. iii) The Program has proved to be socially and economically inclusive and has benefited vulnerable groups, covering them proportionally to their shares in the total population despite the fact that these groups have not been particularly targeted according to the Program's design.

The **need for greater involvement of all relevant stakeholders in the design and implementation of specialized energy policies** has been the focus of CSD activities towards the elaboration of a strategy for increased participation of general public and independent social science researchers and experts in the development of social, societal and governance issues of nuclear energy policy in Bulgaria. Through the PLATENSO FP7-EURATOM project, CSD actively participated in setting up a platform for enhanced societal research related to nuclear energy in eight countries from Central and Eastern Europe. Within this framework, CSD has participated in the assessment of social and political challenges related to different possible nu-



clear energy scenarios in CEE. While stakeholders' involvement is well acknowledged in the respective national legislation, action towards meeting these challenges is still insufficient, partly due to traditions in this highly specialized area of energy policy and to not linking relevant competences outside the state authorities with appropriate decision making processes.

Among the CEE countries, Bulgaria faces these challenges according to the whole spectrum of possible scenarios – from phasing out of old nuclear reactors, through continued operation of current and planned reactors, to (future) construction of new ones. Built on experts' evaluation of the proposed scenarios and on an analysis of the national situation in nuclear energy from a societal point of view, the strategy proposed by CSD addresses existing gaps in the stakeholders involvement with a focus on inclusion of independent social science research expertise in the policy design and implementation, and how these

gaps could be overcome, while simultaneously strengthening the research cooperation at the EU and CEE level.

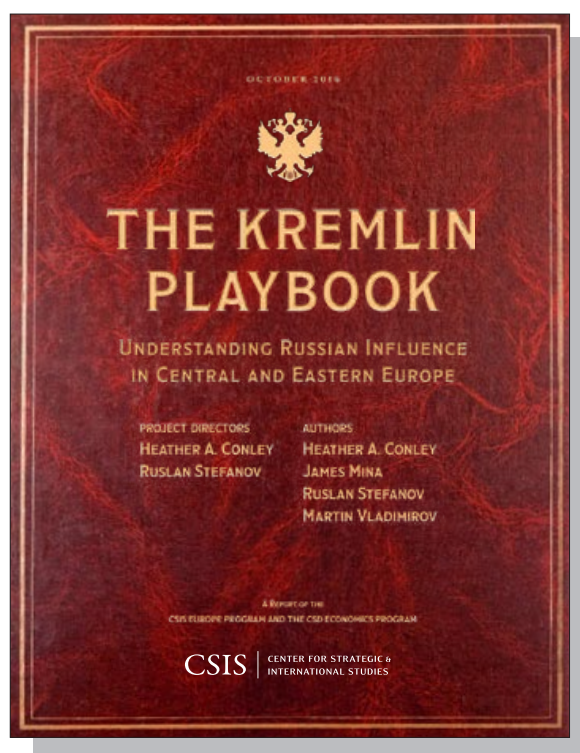
The most straightforward way of achieving this is by implementing the existing and introducing new legal provisions in this field that **improve the overall governance structure in the sector** by including a wider range of experts, including from social sciences and humanities (SSH), and by ensuring wider stakeholder participation in the decision making.

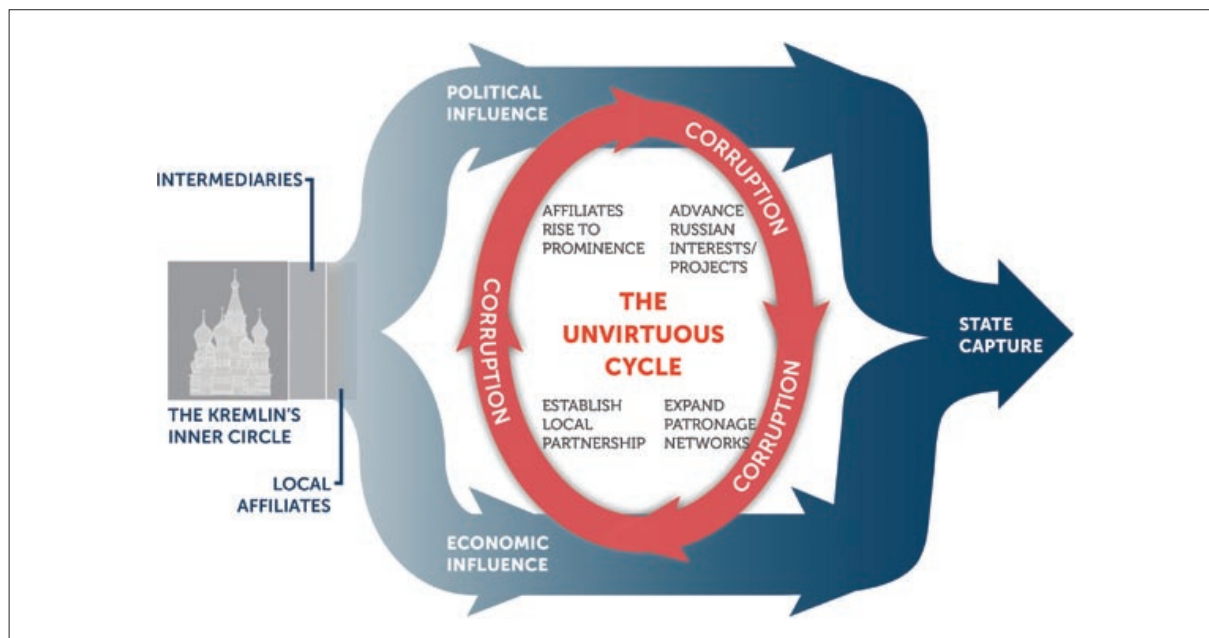
Specific measures to achieve it will include: i) focusing on the real and not formal involvement of independent experts, incl. from SSH domain, and of the general public in the lifecycle of nuclear policy design and implementation – from the very beginning to the very end of the projects; ii) building consensus on long-term priorities, backed-up with national strategic documents, approved by major political parties, in line with the EU priorities; iii) introducing compulsory corporate governance standards for state owned enterprises in the energy sector following the best international principles, such as the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*; iv) improving accountability and transparency in the field, and particularly in terms of new decisions concerning the development of nuclear energy in the country; introducing rules for selection of representatives of the civil society organisations in the policy decision making and thus avoiding misuse of civil society as an instrument for legitimisation of particular policy; improving the secondary school and university curriculum for those fields of education that are related to energy policy, nuclear energy policy, management of energy sector through including education courses on social, societal and governance issues regarding the energy sector in general and nuclear energy in

particular; v) and last but not least, improving the practical application of public consultation procedures, envisaged in the legal framework and ensuring that there is enough time and publicity for public consultations regarding nuclear issues.

Understanding Russian Influence in Central and Eastern Europe

The impact of the Russian influence has been felt across most of Central and Eastern Europe. After 2008, the Russian leadership has aggressively deployed its resource-based resurgent economic power in combination with old time security networks and skilful use of traditional soft power appeal to exploit and further strategic vulnerabilities in the region with the goal of undermining the EU cohesion and the strength of the Transatlantic relations. These are some of the conclusions reached by the 16-month study *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe* trying to highlight the Russian involvement in the politics





Channels of Russian Influence. The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe, 2016

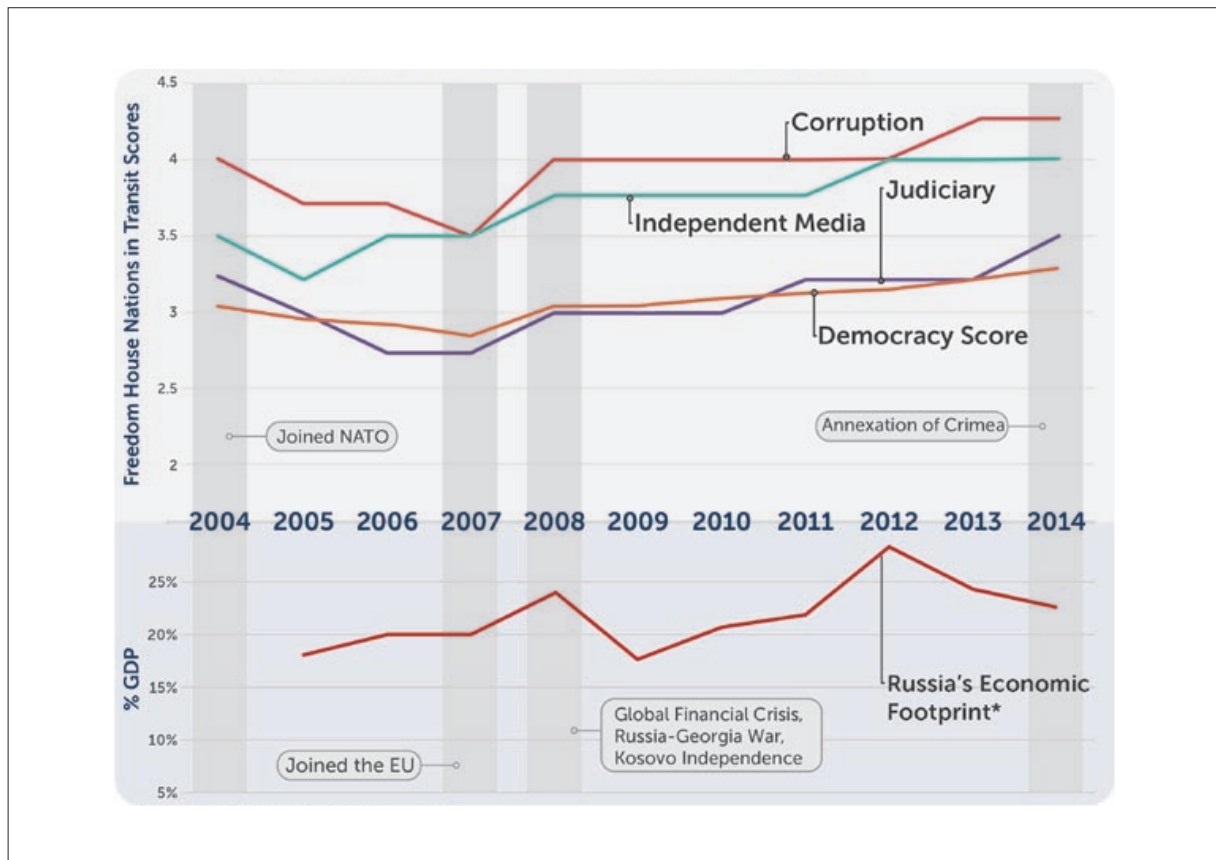
and economics of Central and Eastern Europe, conducted by the Center for the Study of Democracy (CSD) in partnership with the Center for Strategic and International Studies (CSIS).

Russia has used its economic influence as a leverage to exploit governance deficits within the democratic systems of the CEE countries to ensure the maximisation of the benefits of its engagement with the region (i.e. market share in the energy sector) and enrich members of the inner power circle around the Kremlin through large-scale infrastructure projects or lucrative M&A deals. Another equally vital motivation is to weaken the European Union and the West's desirability, credibility, and moral authority, including among EU aspirant countries such as Serbia, Ukraine, Moldova and Georgia, in order to reduce their enthusiasm to cooperate with and integrate into these structures. Last but not least, Russia's assertiveness in the past decade is driven by its desire to reclaim its lost sphere of influence in Central and Eastern Europe and elevate

its model of governance as a more attractive alternative to the U.S.-dominated international order: an illiberal sovereign "democracy" that should be respected at least as an equal player in global affairs.

The report also presented evidence of how Russia has leveraged its economic presence to cultivate an opaque web of economic and political patronage across the region that the Kremlin uses to influence and direct decision-making. This web resembles a network-flow model – or "unvirtuous circle" – which the Kremlin can use to influence (if not control) critical state institutions, bodies, and economies, as well as shape national policies and decisions that serve its interests while actively discrediting the Western liberal democratic system.

The three strategic objectives behind Russia's influence in the CEE region could be seen as interdependent albeit not necessarily centrally designed. It is instead a combination of intent and opportunism. In 2007, President Putin's



Bulgaria: Democracy Scores vs. Russia's Economic Footprint. The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe, 2016

speech at the Munich Security Conference signalled the beginning of a new era of confrontation between Russia and the United States and Europe. A year later, the 2008 Russian-Georgian conflict was the physical manifestation of this new confrontation. Senior Russian officials publicly underscored the weakness of the European project and Europe's inability to economically sustain the regions of Central and Eastern Europe that were lagging behind in the aftermath of the 2008 global economic crisis, providing a growing body of evidence that a new policy agenda was geared toward undermining the West. Russia followed the rhetoric with actions aiming to strengthen its grip on the region's energy market through large-scale infrastructure projects led by state-owned companies such as Rosatom, Rosneft and Gazprom.

Yet in parallel Russia activated its network of Kremlin-linked companies both domestically and within the region to conduct strategic projects and investment deals via a web of non-transparent offshore entities, which has allowed for a multitude of corruption transactions that have enriched a number of intermediaries, or have been used to capture key institutions and policy-makers. The private benefit from corruption linked to mega projects could be then leveraged to ensure the control of an extensive network of individuals. Some of these investments have also been used to facilitate political party financing and in some cases even direct campaigns for producing political and/or economic instability.

The motives behind Russia's increased involvement in the region after 2007 can

easily explain the methods that have been employed and they are not new to the region. Political and regulatory capture, financing political parties, the whole range of soft power instruments, including historical, religious, and ethnic symbols, and Russian international media presence and local media ownership, organizing massive media campaigns (like the anti-shale gas campaign), have compounded economic levers such as acquiring critical (energy) sector companies to form a potent Russian government toolbox for influence in CEE. A mixture of economic muscling, corruptive (energy-related) mega deals, media propaganda, and geopolitical pressure have cost considerable resources and/or swayed many governments in the region, including those of some NATO members, to adopt policies that are not consistent with their national security needs and trend lines, but benefit the interests of foreign private and state interests.

The report estimates that, on average, Russia's economic footprint in the five case study countries (Serbia, Bulgaria, Latvia, Hungary and Slovakia) has ranged from about 11 percent of the economy (in the cases of Hungary and Slovakia over the course of the study period) to an impressive 22 percent in Bulgaria. The full extent of Russia's reach, however, remains unknown, as Russia has sought to conceal its economic activity behind a web of foreign shell companies and offshore accounts. There are different mechanisms that Russia uses in order to amplify its economic influence in the CEE region including:

- playing on structural economic vulnerabilities on bilateral level;
- exploiting governance deficits, e.g. in state-owned enterprises, regulatory bodies, the court system, the tax authorities, etc.;
- capturing influential policy-makers and/or power brokers through corruption or intimidation;
- leveraging corporate profits and presence;
- pulling old-time security networks' strings; and
- raiding pre-89 shared assets.

While in principle there is nothing wrong about Russian corporate presence in a particular country, evidence shows that: 1) the Russian capital has been used by Kremlin to carry through interrelating economic and political interests, and 2) Russian state-owned resources in particular have been seen as used in party financing, protest campaigns and the acquisition of media channels outside of the usual corporate governance frameworks. The combination of the two factors may have been used to provoke government change, the rise of bogus extremist or nationalistic parties, the shift in foreign policy priorities and the opposition to EU common legislative initiatives. Additionally, the domestic Moscow proxies echo Russian interests or lobby for a pro-Russian policy stance.

The leading authors of the *Kremlin Playbook* presented the key findings of the report at a public event at CSIS in Washington D.C. on 13 October 2016. More than 150 US policy-makers, experts and media reporters participated in the event *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, which illuminated the linkages between Russia's economic presence in Central and Eastern Europe and the region's general decline in political stability, diminishing democratic standards, and erosion of governance standards in five case study countries: Bulgaria, Serbia, Slovakia, Hungary, and Latvia. The Report's launch was covered largely by Bulgarian and international media including in a dedicated

Recommendations

- EU institutions and member states should substantially enhance anticorruption and development assistance mechanisms to help the most vulnerable countries build greater resilience to Russian influence.
- Enhance EU internal benchmarking and governance mechanisms built around its anticorruption report. The European Union should augment the report's follow-up mechanisms and make individual country recommendations more specific (including with comments on third-country capture risks). Compliance with these recommendations should be linked to EU development assistance penalties.
- Enhance European Union oversight of EU development funds and require full disclosure of company ownership when meeting EU diversification requirements.
- National antitrust authorities should provide public biannual assessments of the diversification of strategic economic sectors, particularly the energy sector, aided by tax and customs authorities and other agencies to clearly establish final beneficial ownership and linkages to other market players and determine potential national security threats. EU governments should disclose final beneficial ownership and offshore havens to strengthen the transparency, knowledge, and understanding of their national economic base in relation to Russian influence.
- Encourage NATO and EU members to task their own financial intelligence units with developing dedicated units that track illicit Russian transactions.
- Prioritize enhanced EU-U.S. financial intelligence cooperation. An EU-U.S. Summit should be held on the margins of the 2017 NATO Summit, and one of its top agenda items must be preventing undeclared cross-border money flows invested in strategic areas or economic sectors of the economy.

Source: The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe, 2016.

preview by [Reuters](#), as well as articles from the [Financial Times](#), [Süddeutsche Zeitung](#), [Foreign Policy](#), [New York Post](#), [Kyiv Post](#), [Ukraine Today](#), etc.

In his opening remarks, CSD Chairman Dr. Ognian Shentov emphasized that we need to look first at the Russian economic footprint in Europe, and metrify this footprint, which is still largely unknown or ignored; otherwise we would simply be cataloging only anecdotal evidence. On the other hand, we need to run this analysis from different optics – the governance deficits, gaps and

even failures in Europe – both at EU and national level, which provide ample opportunities for Russian aggressive economic and political behavior.

Heather Conley, CSIS Senior Vice President for Europe, Eurasia, and the Arctic, explained that the research has determined that Russia cultivated an opaque web of economic and political patronage across the region which the Kremlin uses to influence and direct decision making. This web resembles a network-flow model – or “unvirtuous circle” – which the Kremlin can use to



*Heather Conley, CSIS Senior Vice President for Europe, Eurasia, and the Arctic, and Ruslan Stefanov, Director of the Economic Program of CSD at the event *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, Washington D.C.*

influence (if not control) critical state institutions, bodies, and economies, as well as shape national policies and decisions that serve its interests, while actively discrediting the Western liberal democratic system.

According to Ruslan Stefanov, Director of the Economic Program at CSD, Russia has exploited governance deficits in the five countries, e.g. in state-owned enterprises, regulatory bodies, the court system, the tax authorities, etc. to amplify its economic presence in Central and Eastern Europe.

In her keynote Kathleen A. Kavalec, Deputy Assistant Secretary at the Bureau of European Affairs, U.S. Department of State, commented that one of the most important achievements of the

Kremlin Playbook report is to recognize the general framework used by Russia in its policies and activities towards the CEE, adding that Russia's policy increasingly rejects the post-Cold War order in Europe. Russia, she underscored, is also willing to undermine existing rules, as witnessed in its coordinated aggressive actions in Ukraine, elsewhere in Europe, and in the United States. Ms. Kavalec noted that they aim to weaken core institutions in the West and cast doubt on the integrity of the West's democratic systems.

The Center for the Study of Democracy presented the *Kremlin Playbook* at an international conference in Sofia *The Russian Economic Footprint in Central and Eastern Europe: Addressing Strategic Vulnerabilities in Hybrid Warfare*, co-spon-



The Russian Economic Footprint in Central and Eastern Europe: Addressing Strategic Vulnerabilities in Hybrid Warfare International Conference, Sofia

sored by the NATO Public Diplomacy Division.

Dr. Ognian Shentov, Chairman of CSD, emphasized in the opening remarks of the international conference, held on 28 November 2016, that the study estimates the Russian economic footprint in five countries including Serbia, Hungary, Latvia, Slovakia and Bulgaria and looks at its impact from different perspectives, most importantly through the analysis of governance deficits. Dr. Shentov added that Russia has systematically taken advantage of the governance vulnerabilities to increase their political leverage over governments in the region. Hence, countering the malign Russian influence depends on their ability to improve the functioning and independence of regulatory bodies, and to strengthen anti-corruption policy.

According to Ilian Vassilev, former Ambassador of Bulgaria to Russia, the malign Russian influence is no longer only a problem for Eastern Europe, but has also been rather visible in Western Europe because Russia has learnt how to play according to Western playbook and manipulate the weakness of democratic systems to its advantage. He also emphasized that Russian influence had been so debilitating because Russia had not only exported energy but also its model of governance based on privilege politics, rather than market rules.

The 2009 warning by CEE leaders to the Obama administration that Russia had “used overt and covert means to economic warfare, ranging from energy blockages and politically motivated investments to bribery and media manipulation in order to advance its interests and to challenge the transatlantic

orientation of Central and Eastern Europe”, had rung hollow until the annexation of Crimea in 2014. The deep misunderstanding of Russia’s motives by Western leaders gave, according to Ruslan Stefanov, Director of the Economic Program at CSD, the greenlight to Russia to step up its efforts to undermine democratic liberal systems in CEE and to challenge international law. He noted that the Kremlin Playbook has tried to establish a link between the deterioration of governance standards and the expansion of the Russian economic footprint in the last 10 years. Mr. Stefanov explained that the Russian economic footprint has been estimated to hover between 10 % in Slovakia and Hungary and 25 % in Bulgaria between 2005 and 2014. He also provided a brief overview of the main tools Russia has been using to amplify the effect of the large economic footprint on national policy-making since 2007/2008, including by exploiting governance deficits in state-owned enterprises (SOEs) to prevent policy consistency in key economic sectors such as energy, banking, telecommunications and large projects, which are becoming extremely difficult to stop. One example is the reduction of the gas price on Hungary’s long-term gas supply contract with Gazprom in exchange for the conclusion of the Paks-2 nuclear power plant deal. The cutting of prices assured that PM Orban would be reelected in 2014. Russia has also leveraged structural economic vulnerabilities and dependencies and has engaged old-time security services and financial networks through opaque ownership structures concealing economic and political activities.

Civil Society Organizations (CSOs) have to lead the way in investigating further the topic of Russian influence, as civil servants and government officials face much greater difficulties in addressing sensitive topics, according to Robert

Pszczel, Director of the NATO Information Office in Moscow. Dr. Iryna Klimenko, Chief Economic Adviser and Senior Research Fellow at the Institute for Strategic Studies “New Ukraine”, addressed the problem of Russian influence in Ukraine as paramount to the deterioration of governance in the country. The second panel, chaired by Traicho Traikov, Minister of Economy, Energy and Tourism (2009 – 2012), focused on a comparative country-by-country overview of different dimensions of Russian influence.

The Wilfried Martens Centre for European Studies in Brussels invited CSD to present the *Kremlin Playbook* report together with researchers from a number of leading European think-tanks examining the malign Russian influence in Europe. During the seminar titled *Understanding Russian Influence in Central and Eastern Europe*, the Director of the Economic Program at CSD, Ruslan Stefanov, and Martin Vladimirov, an energy analyst at the Economic Program discussed the findings of the report on the extent of the Russian economic footprint in CEE and the amplifiers, which increase the impact of this presence. The speakers also debated how Russia has leveraged its economic presence to cultivate an opaque web of economic and political patronage across the region that the Kremlin uses to influence decision-making. Veronika Víchová, Analyst of the Kremlin Watch Programme of European Values Think-Tank, which publishes a weekly brief on the main dimensions of the Russian disinformation campaign and other soft levers over countries in Central and Eastern Europe, confirmed that most of the conclusions in the *Kremlin Playbook* applied to the Czech Republic. She added that apart from the economic levers, Russia had strengthened its presence through a number of pro-Russian media outlets and NGOs that had been spreading



*Understanding Russian Influence in Central and Eastern Europe, Brussels Seminar.
From left to right: Roland Freudenstein, Policy Director of the Martens Centre,
Veronika Vichová, Analyst of the Kremlin Watch Programme of European Values
Think-Tank and Ruslan Stefanov, Director of the Economic Program at CSD*

fake news undermining the credibility of the EU vis-à-vis the Czech Republic. Vít Novotný, Senior Research Officer at the Martens Centre spoke about the important link between Russia's economic footprint and the political orientation of the countries in the region. He and his colleague Roland Freudenstein, the Policy Director of the Martens Centre, shed light on organisations operating in Europe that are funded by the Russian government, whether officially or unofficially. These include government-organised non-governmental organisations (GONGOs), non-governmental organisations (NGOs) and think tanks. Their goal, according to Mr. Novotny is to shift European public opinion towards a positive view of Russian politics and policies, and towards respect for its great power ambitions. In light of Russia's annexation of Crimea and

Russian aggression in Eastern Ukraine, Mr. Freudenstein added, the overt or covert support for these organisations must become a matter of concern to the EU.

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

The lack of a sustainable anticorruption solution in Bulgaria is indicative of a far more significant problem – the numerous corrupt relations and dependencies involving high-level officials and politicians, known as state capture. This leads to the formation of systemic flaws such as abuse of public procurement mechanisms, hidden economy, VAT and other tax scams, blocking of law enforcement and control institutions, media capture.

These are the conclusions of the *Twelfth Anticorruption Policy Forum*, held by the Center for the Study of Democracy on 4 July 2016. The forum presented the findings of the *Corruption Assessment Report*, which examines the level of corruption and the efficiency of the anticorruption strategies and policies in the period 2015 – 2016. Mr. Rosen Plevneliev, President of the Republic of Bulgaria, emphasised the importance of public-private partnerships in anticorruption, highlighting CSD's efforts in this respect. A radical reform in all institutions is needed in order to disentangle existing corruption dependencies. Mr. Plevneliev pointed out that the public has a right to know the truth about failed energy projects such as Belene NPP and Tsankov Kamak. The future anticorruption law can instill intolerance to corruption if its implementation is supported by all institutions. In this sense the fight against corruption requires consensus,

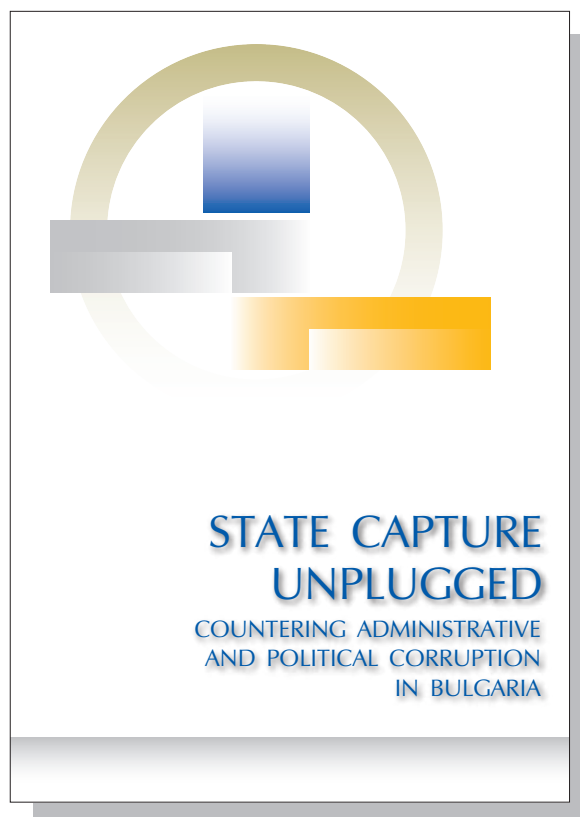
not compromise. So far countering corruption has been based primarily on legislative changes, such as the division of the Supreme Judicial Council in two colleges – magisterial and prosecutorial. Mr. Lozan Panov, Chairman of the Supreme Court of Cassation, stressed that a greater balance between judicial governance and management is needed and political influence over the courts should not be allowed. Another serious problem is self-censorship applied by some judges because of a sense of loyalty or fear. While drafting anticorruption measures and laws, politicians must rely on civil society's independent research to identify the bottlenecks in the practice. Ms Meglena Kuneva, Deputy Prime Minister and Minister of Education and Science, expressed satisfaction with the support of all but one parliamentary represented political parties for the Law on Prevention of Corruption and Forfeiture of Criminal Assets,



Twelfth Anticorruption Policy Forum: State Capture Unplugged: Countering Administrative and Political Corruption in Bulgaria, Sofia

and the fact that the law stipulates that the Assets Forfeiture Commission will be part of the future independent body. She noted that anticorruption measures should not stop with the implementation of this law, but should be complemented by the efforts of inspectorates and other institutions. Ms Romyana Bachvarova, Deputy Prime Minister and Minister of Interior, said that the findings of the *Corruption Assessment Report* are an accurate benchmark for the government's work. She thanked CSD for acknowledging the anticorruption efforts of the Ministry of Interior, including the curbing of cigarette smuggling, which brought in hundreds of millions of revenues. Ms Sonya Naydenova, member of the Supreme Judicial Council, stated that the sense of impunity promotes corruption at all levels, but it is the court that bears the brunt of regaining the confidence of the people. Ms Ekaterina Zaharieva, Minister of Justice put forward the need to strengthen the independence and accountability of the judiciary as the main anticorruption argument. She elaborated that the pivotal role in the fight against corruption belongs to the judiciary, impartial prosecutors, and investigators.

The eleventh *Corruption Assessment Report* of the Center for the Study of Democracy is focused on the most potent form of corruption affecting Bulgaria: state capture. The report builds on years of CSD experience in the regular monitoring and assessing of the spread of administrative and political corruption. This is now complemented by an assessment of the mechanisms by which powerful lobbies capture government decision making to the benefit of shady business interests and the detriment of public good. The report finds that these two manifestations – administrative corruption and state capture – are closely linked because they represent different facets of the same phenomenon.



Two days after the presentation of the report at the *Twelfth Anticorruption Policy Forum*, the Council of Ministers (CoM) invited the CSD experts to share their findings and policy recommendations on countering administrative and political corruption at a *CoM meeting*. As a result of the meeting, the Council of Ministers put forward specific targets for decreasing corruption in key areas, such as smuggling, public procurement procedures and the public administration. Recognizing the importance and the potential future impact of the discussed anticorruption initiatives, major Bulgarian media published commentaries and full minutes of the Council of Ministers meeting.

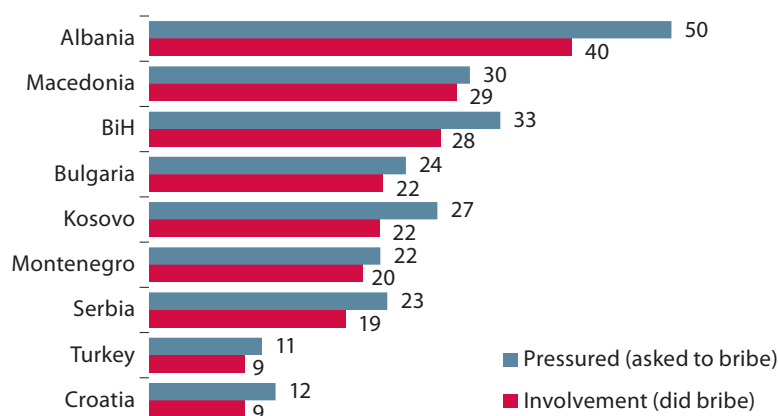
In 2016, the *Southeast Europe Leadership for Development and Integrity (SELDI)* initiative was able to further its influence and impact in the SEE region. In its flagship Regional Anti-corruption Report *Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe*,



SELDI underlines that in none of the countries in the region has there been a clear sustained policy breakthrough in anticorruption though efforts to deliver technical solutions and to improve

the functioning of the law enforcement institutions, mostly with support from the EU, have continued and even intensified in some cases. This has led to further slow decline in administrative corruption levels but at the expense of waning public support for reforms and of declining trust in national and European institutions. The report makes an important contribution to the regional approach to anticorruption. It provides a civil society view of the state of corruption and comes in the wake of the 2014 SELDI comprehensive assessment of the various aspects of the legal and institutional anticorruption environments of nine SEE countries. In 2016, SELDI followed up on these assessments with an update of corruption monitoring and a special focus on state capture in the energy sector and the corruption – hidden economy nexus. It also published an updated *Civil Society Strategy and Joint Strategic Programme for Good Governance and Anti-Corruption in SEE 2020*, which describes the current and desired future role of the civil society from the Southeast Europe region in implementing anti-corruption measures.

Corruption pressure compared to involvement in corruption, 2016 (%)



Source: SELDI Corruption Monitoring System, 2016.

SELDI's Corruption Monitoring System (CMS) – its analytical tool for measuring corruption – has identified three trends in the dynamics of corruption in the region:

- Since the early 2000s when SELDI started its monitoring the overall levels of corruption in the SEE countries have gone down, and the public has become more demanding of good governance.
- Yet, progress has been slow and erratic, and corruption continues to be both a major preoccupation for the general public and a common occurrence in the civil service and senior government. Specifically, in the 2014 – 2016 period corruption pressure – the primary quantitative indicator for the levels of corruption in a country – has relapsed in some countries, but the overall improvement in the region was negligible.
- The combination of stubbornly high rates of rent seeking from corrupt officials and rising expectations for good governance related mostly to EU accession aspirations in SEE have shaped negatively public expectations about potential corruption pressure. More than half of the population of the SELDI countries believe it is likely to have to give a bribe to an official to get things done. This indicates that the restoration of trust in institutions would be much more difficult than the mere reduction in the levels of administrative corruption.

Source: SELDI Regional Anti-Corruption Report *Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe*, 2016.

The Center for the Study of Democracy and the SELDI partners presented the conclusions of the *SELDI Regional Anti-Corruption Report* at regional conferences in Skopje and Brussels, as well as at national events. The need to reduce corruption and state-capture vulnerabilities in Southeast Europe, in particular in the energy sector, was the main focus of discussion at the *SELDI Policy Workshop: Strengthening Resilience to Corruption and State Capture in Southeast Europe* held on 14 June 2016 in Brussels. The participants underlined that having good laws and institutions are good first steps; however they need to be accompanied by political will and change of mentality. The countries from Southeast Europe need to focus not only on the fight against corruption, but also on making institutions efficient, as recommended by Mr. Andrey Kovatchev, Member of the European Parliament, Committee on Foreign Affairs. It is important to create a new generation

that is educated in democratic values. The Cooperation and Verification Mechanism (CVM), as well as the new approach of opening chapters 23 and 24 earlier in accession negotiations have the potential to push the necessary long-term reforms, beyond the term of a single government. Countries need to have sustainable and effective anti-corruption mechanisms that are systematically used to expose illegal wealth.

However, countries have recently started to embrace soft preventive tools, and effective enforcement is missing, according to Ms Sabine Zwaenepoel, Chapter Coordinator, Accession negotiations to the EU, Directorate-General for Neighbourhood and Enlargement Negotiations, European Commission. Anti-corruption agencies need sufficient power, financing and staff, as well as true independence, according to Mr. Julien Mousnier, Deputy Head, Citizens and Security Unit, Poli-



SELDI Policy Workshop: Strengthening Resilience to Corruption and State Capture in Southeast Europe, Brussels

cy Co-ordination Directorate, Secretariat General, European Commission. Institutions such as the Special Public Prosecutors should be using all legal mechanisms available to them to determine which individuals unlawfully gained assets, and to return these assets to the people. However, in cases such as Macedonia, the work of the Special Public Prosecutor of the Republic of Macedonia, Ms. Katica Janeva, is hindered by the refusal of cooperation and access to information from other public bodies. As highlighted by Ms. Milica Bozanic, Assistant Director for International Cooperation at the Serbian Anti-Corruption Agency, anti-corruption plans and strategies do not truly drive or guarantee results of anti-corruption reforms. All institutions should have the necessary political will in order to achieve the desired change, with a key focus on tackling high-level corruption and ensuring whistleblower protection. Unfortunately, political appointments and promotion systems exist, including

in the institutions that should fight corruption.

The participants in the *SELDI Second Regional Anti-Corruption Policy Forum: Countering Corruption and State Capture in Southeast Europe*, held in Skopje on 29-30 September 2016, stressed that in the past ten years, both the nature of corruption and the anticorruption agenda in Southeast Europe have changed. Political corruption has replaced petty bribery both as the dominant concern of national and international reformists and as one of the leading causes for most social and economic damage. The earlier emphasis on harmonising national legislation with international standards has now been substituted by a focus on its enforcement. The representatives of the public institutions talked about the practical challenges of initiating a large-scale anti-corruption campaign in spite of the outside political pressure to prevent it from bearing fruit.

Mr. Nicola Bertolini, Head of Cooperation at the Delegation of the European Union in Skopje underlined that corruption should be countered by prevention, control and enforcement methods. To achieve this common goal, the Civil Society Facility supports the CSOs efforts to provide advocacy and keeping the governments accountable. The statement that “the price of liberty is eternal vigilance” was further reinforced by Mr. Alexander A. Arvizu, Deputy Assistant Secretary, Bureau of International Narcotics and Law Enforcement Affairs (INL). Mr. Ivo Vajgl, MEP, Rapporteur for Macedonia, European Parliament expressed his hope that the Macedonian parliamentary elections on 11 December 2016 will be democratic and transparent, and will be the start of an efficient cooperation between all parties working towards the common European goals. Ms Katica Janeva, Special Public Prosecutor of the Republic of

Macedonia noted that the price of corruption is paid by the citizens, however all efforts are in place to provide the needed institutional response. In addition, the freedom of press and investigative journalism should in no way be obstructed, as noted by Dr. Janina Berg, Good Governance, Anti-Corruption & Human Rights Consultant, Ascent-EU.

The key challenge is setting in place reliable, responsive protection mechanisms for whistleblower. Ms Sabine Zwaenepoel, Chapter Coordinator, Accession negotiations to the EU, Directorate-General for Neighbourhood and Enlargement Negotiations, European Commission underlined that since 2011 there is a new approach in accession negotiations, focusing on results, not only on legislative harmonization. Thus chapters 23 and 24 are opened at the beginning and closed at the end of the accession negotiations, in order to provide



*SELDI Second Regional Anti-Corruption Policy Forum:
Countering Corruption and State Capture in Southeast Europe, Skopje*

sufficient time for the reforms to take place.

During the second day of the Policy Forum, the discussion focused on the processes of building institutional competencies and enhancing the efficiency of the administration. Mr. Vladica Babić, Assistant Director, Sector for the Prevention of Corruption at the Agency for the Prevention of Corruption and Coordination of the Fight against Corruption, Sarajevo described their role in providing guidelines to institutions which are currently preparing Integrity Plans. He also noted the challenges that the complex administrative setup in Bosnia and Herzegovina poses to the effective coordination when improving the legal framework, the operations of judicial bodies, raising public awareness and participation, monitoring and evaluation of the implementation of the Anti-corruption Strategy. Mr. Milos Mo-

jsilovic, Senior Adviser, Corruption Prevention Department, Anti-Corruption Agency of Serbia further underlined that when maturity of the political system is missing, stronger mechanisms are needed.

Experts from the Economic Program took part in numerous events in the countries from Southeast Europe and Turkey, providing policy advice and presenting the conclusions of SELDI's *Corruption Monitoring System*. These included the regional conference: Sustainability of the FPAs held on 26-27 January 2016 in Brussels, the conference *Effective Combating of High-Level Corruption: Matter of Person or a System?* held in 22 March 2016 in Skopje, the *Closing Event of the Framework Partnership Agreements* held on 10-11 November 2016 in Skopje and the *Second Annual Meeting of the South East Coalition on Whistleblower Protection* held in Zagreb on 14 Novem-



Panel Discussion: Shadow Power: Corruption and Hidden Economy in Southeast Europe, Washington D.C. From left to right: Martin Vladimirov, Energy Analyst, Economic Program, Center for the Study of Democracy, Ruslan Stefanov, Director, Economic Program, Center for the Study of Democracy and Dr. Daniel Serwer, Academic Director of Conflict Management, Johns Hopkins School of Advanced International Studies



Round Table: The Anti-Corruption Agenda for Southeast Europe after the 2016 Enlargement Package: How to Break the State Capture Deadlock and Make Enlargement Deliver Again? Brussels, hosted by Monica Macovei, Member of the European Parliament, European Conservatives and Reformists Group

ber 2016. The Director of the Economic Program of the Center for the Study of Democracy, Ruslan Stefanov and Martin Vladimirov, Energy Analyst in the Economic Program of CSD presented the latest findings of the *Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe* report at a panel discussion in the School of Advanced International Studies (SAIS) at Johns Hopkins University on 17 October 2016.

The round table *The Anti-Corruption Agenda for Southeast Europe after the 2016 Enlargement Package: How to Break the State Capture Deadlock and Make Enlargement Deliver Again?*, hosted by Ms Monica Macovei, MEP, and the SELDI initiative on 30 November 2016 in the European Parliament, sought to chart needed next steps in finding effective tools to tackle one of the worst outstanding challenges in the region – of corruption and state capture in a discussion between representatives of the civil society, the European Commission, and the European Parliament. The event contributed to promoting the public-

private dialogue in identifying effective counter-measures and possibilities for future collaboration among all stakeholders. It called to the countries not to lose the gained momentum of implementing the EU membership conditionality, as well as their will for reforms. In her opening remarks, Monica Macovei, MEP, underlined that public support is the key of success, especially in terms of holding politicians accountable in times of elections. The citizens should share the responsibility, report cases of corruption, and not overly rely on the institutions to solve all problems. Legislation should be effectively enforced and the policies should apply corruption risk assessment, thus focusing on the most critical areas. Ms Macovei highlighted the positive impacts of the Cooperation and Verification Mechanism (CVM), but at the same time she noted that in recent years there is a concerning trend of young judges and prosecutors seeking fast enrichment, resulting in increased amounts of the bribes.

SELDI members from six countries shared the challenges that they face.

They stressed on the key role of the CSOs in keeping political elite accountable. All countries in the region have systemic problem with corruption, and even high levels of prosecution and investigation cannot tackle it in the next 5-10 years, according to Ruslan Stefanov, SELDI Coordinator, Center for the Study of Democracy, Bulgaria. Mr. Stefanov presented the key findings from the *Shadow Power*, the SELDI *Regional Anticorruption Report 2016*. Anticorruption progress has slowed down in the past two years, with citizens feeling trapped in what they increasingly see as their captured states by powerful political – economic networks. On average a quarter of the citizens in the region have been forced to engage in corruption, exposing a systemic governance problem in SEE. This has slowed growth, sustained poverty and fueled inequality. Sabine Zwaenepoel, Coordinator of the Centre of Expertise on Rule of Law and Fundamental Rights, DG NEAR, European Commission summarized the conclusions from the 2016 Enlargement Package. She expressed her disappointment at the limited results achieved by the countries after the huge amount of funding provided by EC. The EC is working to develop a more strategic approach to countering state capture and money laundering, supporting policy and administrative reforms, ensuring appropriate control over the work of the agencies and transparent elections, improving managerial accountability and public procurement systems.

SELDI also signed *Memoranda of Understanding* for future anti-corruption collaboration with seven Albanian CSOs on 1 June 2016.

In the 2016 Transparify ranking, three SELDI Members were awarded five stars for a second time: the Center for the Study of Democracy, Bulgaria,

the Center for Democratic Transition (CDT), Montenegro and Institute Alternative (IA), Montenegro. Transparify, a non-profit initiative, provides the first-ever global rating of the financial transparency of 200 major think tanks in 47 countries.

Representatives of six SELDI members also took part in the *Multi-Stakeholder Workshop on the United Nations Convention against Corruption and its Review Mechanism*, held on 20-23 September 2016 in Vienna, Austria. They learned about the possibilities for cooperation between governments and civil society organizations (CSOs) in implementing the United Nations Convention Against Corruption (UNCAC) and its second review cycle. The workshop brought together 63 experts from 18 African and Southeast countries. The participants engaged in plenary sessions, structured discussions and practical group exercises based on country review simulation and role reversal. The speakers underlined that UN Convention against Corruption is the only legally binding, universal, anti-corruption instrument. Its Article 13 specifically calls on society, including the CSOs, to actively participate in combating corruption.

At the end of 2016 the Economic Program engaged in several new initiatives in the area of anti-corruption: evaluation of the work of the Macedonian State Commission for Prevention of Corruption, support for the creation of a new *Anti-Corruption Southeast Europe Regional Platform* hosted at the [UNCAC Coalition](#) website, and the *European Platform for Tackling Undeclared Work*.

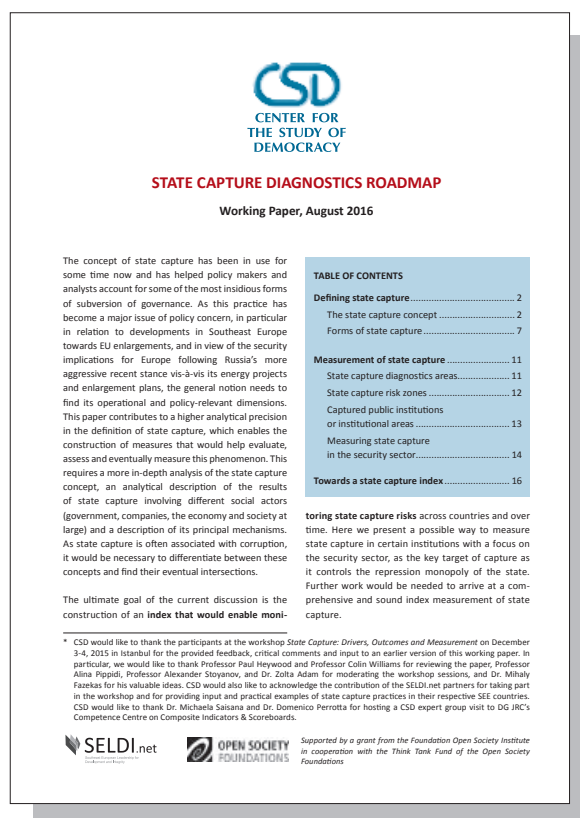
Anticorruption and State Capture

As an essential part of CSD long-term efforts toward establishing sustainable good governance mechanisms in South-

east Europe countries in 2016, the Center has started a process of elaborating a sound methodological framework for international comparative assessment of state capture. The concept of state capture helps policy makers and analysts account for some of the most insidious forms of subversion of governance. This practice has become a major issue of policy concern, in particular in relation to developments in Southeast Europe towards EU enlargements, and in view of the security implications for Europe following Russia's more aggressive recent stance vis-à-vis its energy projects and enlargement plans.

The development of methodological framework at CSD aims at construction of measures that would help evaluate, assess and eventually quantifiably measure this phenomenon. This requires a more in-depth analysis of the state capture concept, an analytical description of the results of state capture involving different social actors (government, companies, the economy and society at large) and a description of its principal mechanisms. As state capture is often associated with corruption, it would be necessary to differentiate between these concepts and find their eventual intersections. The ultimate goal of the efforts is the construction of an index that would enable monitoring state capture risks across countries and over time. The notion of state capture, despite its frequent use does not have a single definition because it is used in different contexts and covers various types of phenomena. For example, state capture is used when referring to the establishment of control by one state over the resources of another state, for the capture of the institutional capacity of the executive (or other powers) by political parties aimed at extracting corruption rents, or when business sector entities seek to shape (by paying bribes to state officials) the "rules of the game" (legisla-

tion) in order to obtain privileged status or preferential treatment.



The *State Capture Diagnostic Roadmap*, published by CSD, paved the way ahead and has greatly benefited from the extensive collaboration in monitoring and policy advocacy activities towards good governance and anticorruption within the framework of SELDI coalition, headed by CSD, as well as from the extensive cooperation with leading academic and policy experts in Europe.

Countering fraud and corruption risks in the area of public procurement

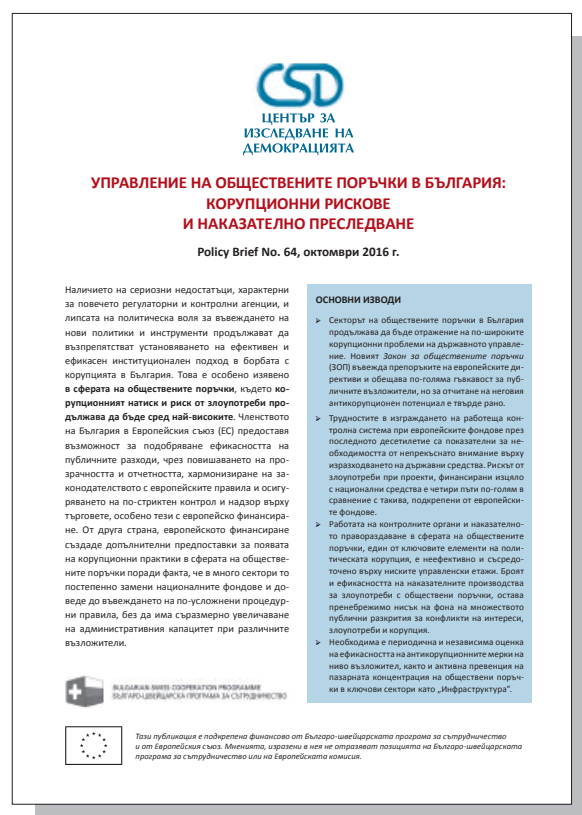
The Economic Program contributed to the increasing of the institutional capacity and cooperation of Romanian and Bulgarian authorities to prevent and combat public procurement criminality. The CSD experts addressed the need to combat public procurement criminality, with a focus on improving the understanding of corruption vulnerabilities,

such as economic loopholes, bureaucratic stand stills, competition infringements, legal weaknesses and poor inter-stakeholder cooperation and mutual understanding. In 2016, through collaboration between CSD and its Romanian partners from governmental and non-governmental organizations, a number of Bulgarian experts from prosecutors' offices, the judiciary and the public administration participated in workshops and seminars dedicated to understanding and tackling the existing corruption challenges in the public procurement sector. These were organized as part of the initiative *Law, Economy, Competition, and Administration – Developing a Multi-disciplinary Approach in the Fight against Public Procurement Criminality (LEAD)*. On 14 December 2016, during the LEAD final conference in Bucharest, CSD presented its most recent publications in the area of public procurement.



CSD developed a *Public Procurement Criminality: Practical Guide for Prevent-*

ing, Countering and Analyzing Corruption Risks. The publication covers selected internationally recognized standards on approaches, methods and guidelines for countering criminality and corruption practices in the public procurement process. The practical Guide is tailored to aid the work of civil servants, magistrates and practitioners in the area. The Guide is based on conclusions from series of seminars, workshops and conferences, involving Bulgarian and Romanian experts, which took place between December 2014 and July 2016 in Romania.



A policy brief on *Governance of the Bulgarian Public Procurement Sector: Corruption Risks and Criminal Prosecution* was prepared by CSD Economic Program. Despite the legislative and institutional progress, especially in terms of increased transparency and access to data, the public procurement (PP) sector in Bulgaria continues to be associated with high levels of corruption risk. The



Defrauding the Bulgarian Public Procurement System: Prevention, Countering and Analysis of Corruption Risks Round Table, Sofia. From left to right: Dr. Todor Galev, Senior Analyst at CSD, Ruslan Stefanov, Director of the Economic Program at CSD, Tomislav Donchev, Deputy Prime Minister for European Funds and Economic Policy, Dr. Ognian Shentov, CSD Chairman, Aneliya Yordanova, Director of the Analysis and Reporting of Inspection Activities Directorate at the Agency for State Financial Inspection (PFIA) and Stefan Karaboev, Analyst at CSD

number of irregularities uncovered by the control bodies remains considerable. At the same time there is a lack of effective investigation, while criminal cases, involving PP, are still very limited and predominantly focused on the lower levels of governance.




These were some of the overall conclusions among the participants at the round table *Defrauding The Bulgarian Public Procurement System: Prevention, Countering and Analysis of Corruption Risks* organized by CSD on 31 October 2016. There is a clear trend of sustaining very limited number of criminal cases, which do not reach the higher echelons of power. The fluctuations in the public procurement sector are often tied to political cycles, while at the same time the number of irregularities remains

significant. Mr. Stefanov also discussed the role of the European financing in the Bulgarian public procurement landscape, highlighting that EU Funds gradually expand their share in the overall PP market. Public procurement financed by the EU is both more competitive and risk averse – analysis by CSD found the exclusively state-funded PP is up to four times as vulnerable to corruption, compared to EU funded procurement.

Analyzing the Nexus between European Financing and Anti-Corruption

In 2016, CSD continued to expand its research and policy analysis capacity at national, regional and European levels. As part of the [ANTICORRP project](#), the biggest anti-corruption effort of the

EU's FP7, CSD developed an analysis evaluating the impact on Bulgaria's anti-corruption performance against the existing EU policy conditionalities and EU financial assistance, with a focus on post-accession developments. Although the EU never formally linked EU assistance to progress on anti-corruption, the disbursement of funds has tended to peak around critical deadlines for accession progress, e.g. the signing of the accession treaty in 2005, and the expiration of the Cooperation and Verification Mechanism's (CVM) safeguard clauses in 2010. Both years also marked the lowest levels of corruption experienced by Bulgaria's citizens. This suggests that the combined effect of EU anticorruption conditionality and development assistance on governance in Bulgaria was positive, but temporary.

  												
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Additionally, as part of the network of local correspondents, of DG Home of the European Commission, in 2016 CSD continued working on the Bulgarian

section of the upcoming in second EU Anticorruption Report. CSD also participated in evaluation of the effectiveness and efficiency of cohesion policy implementation during the period 2007 – 2013, reviewing the main underlying success factors and areas in need of development. The work of the Center in the areas of EU funding continues with analysis of ESIF 2014 – 2020 programming documents in Bulgaria and an assessment of the integration, impact and applicability of the provided by the Council of the EU country-specific recommendation during the 2012 – 2016 period.

Fight against money laundering

Money laundering (ML) and other financial crimes are generally linked to different predicate offences by organized crime groups (most often with regards to traffic of narcotics and human beings, prostitution, weapons, computer crimes, etc.). Combating and investigating money laundering thus requires a systematic approach to collection and analysis of financial information for the activities of organized crime groups, as well as broader application and understanding of the legal framework, and substantiation of the existing capacity within the relevant law enforcement structures. In 2016, CSD partnered with the Basel Institute of Governance in attempt to analyse the current trends and institutional dynamics, and to contribute to the fight against money laundering.

Those were some of the main issues put forward during a *round table organized by CSD on 14 July 2016*. The participants, among which there were representatives of General Directorate National Police, the State Agency for National Security (SANS), the Commission for Illegal Assets Forfeiture, and the Basel Institute on Governance, discussed Bulgaria's recent and historical developments in the domain of investigating



*The participants in the round table Tackling Criminal Finances:
Anti-Money Laundering in Bulgaria*

and combating money laundering. The latest report from the Committee on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) at the Council of Europe assessed the country positively, especially concerning the existing legal and institutional anti-money laundering (AML) framework. It is true that no universal solution exists for increasing the ML prevention and investigation effectiveness. The presence of institutional capacity, including appropriate funding and qualified human resources, however, is critical. Intra-institutional cooperation on every level and international collaboration with foreign organizations and intelligence units are also key elements for establishing a solid track record when it comes to ALM and the forfeiture of illegally obtained assets. Similarly, it is essential to establish an effective organization and structuring of the related national bodies in order to avoid any duplication of functions and

tackle the rise of destructive and artificially created cross-institutional competition. Last but not least, the round table participants agreed that the procedures leading to confiscation of illegally obtained assets should start as early as possible and go in parallel with (not after the conclusion of) the criminal proceedings.

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

In recent years, the shadow economy, once thought to be a problem only for less economically developed countries, has become a pressing issue for developed economies as well. It acutely affects Bulgaria which is widely recognised as having the largest shadow economy in the European Union.

In 2016, CSD and Vitosha Research continued their good cooperation with



Conference and Summer School on Shadow Economies and Undeclared Work in Europe: New Insights and Policy Response, Sofia. From left to right: Ms. Denitsa Sacheva, Deputy Minister of Labour and Social Policy, Mr. Ruslan Stefanov, Director of the CSD Economic Program and Mr. Arnis Sauka, Director of the Centre for Sustainable Business, Riga

the University of Sheffield Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe. CSD hosted in Sofia an international [Marie Curie](#) conference and summer school on *Shadow Economies and Undeclared Work in Europe: New Insights and Policy Response*. The events aimed to provide a better understanding of the causes and effects of the shadow economy and undeclared work, and to offer new insights and identify various policy responses in the field. The conference, which gathered leading academics, government officials and politicians, made it clear that the task of identifying and rectifying the shadow economy is achievable, though neither easy, nor simple.

Mr. Ruslan Stefanov, Director of the CSD Economic Program, stressed that Bulgaria still faces severe undeclared work issues, and could benefit from

the support and policy solutions of its Southeast European partners. Professor Colin Williams from Sheffield University emphasized the importance of understanding the difference between the causes and effects of undeclared work, and how this can most easily be achieved through the prism of institutional theory, which points to an asymmetry between formal and informal institutions as being the root cause of the informal economy. Professor Williams discussed different policy approaches towards undeclared work and laid out the hypotheses about the rational economic actor and the social actor, their behaviour, influences and reasoning behind engaging in hidden economy activities. He also presented a breakdown of the findings and conclusions of a study on participation in undeclared work based on the method of multi-level logistic regression using 27,563 interviews conducted in EU-28. The Deputy Minister of Labour and So-

cial Policy of the Republic of Bulgaria Ms. Denitsa Sacheva pointed out the Bulgarian government's commitment to tackling these problems, whilst ensuring that the views of all stakeholders are being taken into account. Mr. Georgi Pirinski, Member of the European Parliament, described the practices of "labour dumping" where immigration and free movement can greatly swell the labour force. This, he stated, is then being used by employers to drive down wages and create a climate in which undeclared work can thrive. He recommended the introduction of effective policies such as tax breaks. The participants also discussed the tools for measuring and tackling the hidden economy and undeclared work in Bulgaria, Macedonia and Croatia, which are the focus countries of the Marie Curie collaboration between CSD and Sheffield University. Other speakers included many renowned international and local experts and policy-shapers: Mr. Arnis Sauka, Director at the Centre for Sustainable Business, Latvia,

the President of the Confederation of Independent Trade Unions of Bulgaria Mr. Plamen Dimitrov, Mr. Veselin Mitov, International Secretary of the Podkrepa Confederation of Labour, the MasterCard Country Manager for Bulgaria and Macedonia Ms. Vanya Manova, Ms. Teodora Dicheva of the General Labour Inspectorate, Mr. Nikolay Petkov, Director of Risk Management at the National Revenue Agency, Dr. Todor Yalamov, SELDI expert, Professor Emilia Chengelova from the Bulgarian Academy of Sciences, Mr. Milen Kolev of the National Statistical Institute, Dr. Peter Rodgers, Lecturer in Strategy and Business at the University of Sheffield, Dr. Marija Risteska, Director of the Center for Research and Policy-Making, Skopje, Marie Curie Research Fellow Ms. Legha Momtazian from the University of Sheffield, and Mr. Josip Franic, Researcher at the Institute of Public Finance, Croatia.

Following the conference, a two-day summer school on the topic of shadow



Conference and Summer School on Shadow Economies and Undeclared Work in Europe: New Insights and Policy Response, Sofia

economy in Europe and beyond took place, at which international experts and PhD students presented their work and research and debated the causes and impacts of the informal economy. The event included numerous simulations and presentations exploring issues such as the tax morale and informality in post-socialist rural areas, the informal competition in the private sector, and the nature of the relationship between the minimum wage and the size of the shadow economy, among others.

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HIDDEN ECONOMY IN BULGARIA: 2015 – 2016

Policy Brief No. 64, September 2016

The correct understanding of the dynamics and the structure of the hidden economy is essential for improving the governance of the public and the private sector. Two thirds of entrepreneurs globally start their business by engaging one way or another in hidden economic activities. Given the right set of circumstances (compatibility between formal and informal institutions, high level of trust in the government, the law enforcement and the judicial authorities) these entrepreneurs formalize their activities and integrate themselves quickly and effectively into the official economy. At the same time, the negative consequences of the hidden economy are multidimensional and their identification and limitation is of key importance. In Bulgaria the high level of hidden economy undermines the economic development of the country and requires serious and persistent political attention. The unprecedented growth in the field of digitization of economic activities, the convergence between some of them, and the emergence of brand new services creates an opportunity for achieving a desirable environment, which may reduce the hidden cash flows and boost the economic development of the country. Comprehensive reforms focused on the functioning of the market mechanisms and administrative effectiveness are needed in order to promote the process of economic convergence within the European Union and limit the harmful effects of the hidden economy in Bulgaria.

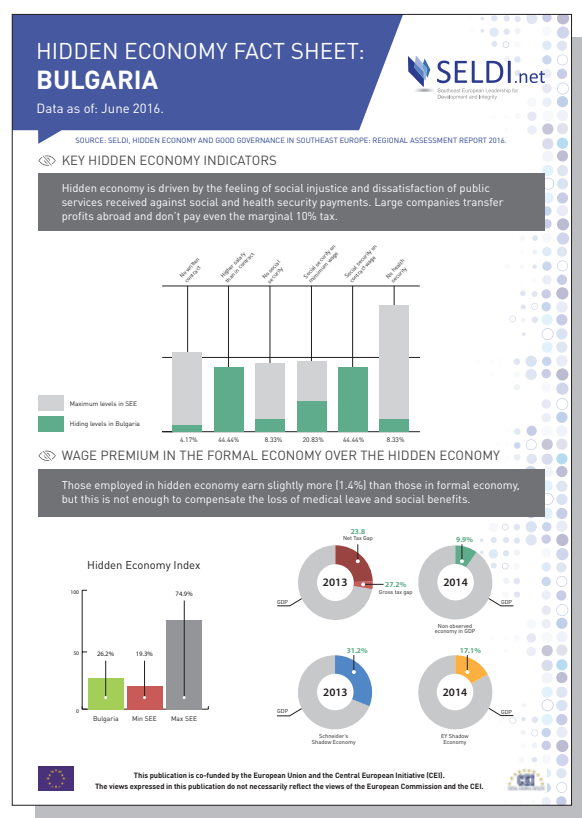
KEY POINTS

- Data from the 2015/2016 *Hidden Economy Index* showed that **hidden employment receded** according to both business representatives and the public at large. The evasion of social and health insurance payments decreased too. This dynamic contributed to the lowest level of the "hidden employment" sub-index during the 2002 – 2015 period. Nonetheless, a quarter of the individuals employed still do not declare some or all of the social security payments.
- The labor market's major challenges in reducing hidden employment proved to be the wider coverage of young employees (18-29 years of age), particularly males, and the increase of social security income for specific groups of employees. One third of the young employees do not pay social security contributions on their actual earnings.
- Organized VAT fraud is among the main threats to the national economy as they are the second biggest source of revenue for the organized crime after human trafficking and before drug and illegal cigarettes trade. The danger comes from the fact that these type of frauds cause direct fiscal damage and compromise competitiveness in entire economic sectors.
- The issue with the introduction of VAT for the personal use of premium goods/services listed as company expenses remains hanging as the implementation of the measures proposed by the Ministry of Finance in 2016 causes costs that seem unreasonable.
- Change in the tax morality and the behavior leading to engagement in hidden economy activities cannot be expected and achieved in Bulgaria without significantly improving the quality of public services and achieving higher public trust in the state institutions and the allocation of public funds.

¹ Statement made by Prof. Colin Williams of the University of Sheffield at the "Tackling the Hidden Economy: Employing Best EU Policy Practices for Growth and Jobs" policy forum held in Skopje, Macedonia on October 13, 2015.
* This policy brief has been elaborated with the financial assistance of the Bulgarian-Swiss Cooperation programme, the Global Challenges Research Fund (GCRF) and the Economic and Social Research Council (ESRC). The views expressed in it do not necessarily reflect the views of the Bulgarian-Swiss Cooperation programme, GCRF and ESRC.

During the events, the Center for the Study of Democracy presented the policy brief *Hidden Economy In Bulgaria: 2015 – 2016*. The authors stress that the correct understanding of the dynamics and the structure of the hidden economy is essential for improving the governance of the public and the private sector. Two thirds of entrepreneurs globally start their business by engaging one way or another in hidden economic activities. At the same time, the negative

consequences of the hidden economy are multidimensional and their identification and limitation is of key importance. According to data from the 2015/2016 *Hidden Economy Index* hidden employment receded according to both business representatives and the public at large. The evasion of social and health insurance payments decreased as well. This dynamic contributed to the lowest level of the *hidden employment* sub-index during the period 2002 – 2015. Nonetheless, a quarter of the individuals employed still do not declare some or all of their social security payments. In that regard, change in the tax morality cannot be expected in Bulgaria without significantly improving the quality of public services and achieving higher public trust in the state institutions.



In the framework of the SELDI initiative, the experts from the Economic Program and their partners from eight SEE countries, prepared the *SELDI Policy Brief 6: Hidden Economy in South-*

east Europe: Monitoring and Policy Implications for Good Governance, national Hidden Economy Fact Sheets 2016, and a backgrounder entitled *Hidden Economy and Good Governance in Southeast Europe: Regional Assessment Report 2016*. These analyses and fact sheets present SELDI's key findings on the manifestations, causes and impacts of the hidden economy and undeclared labour in the SEE countries in 2016. The research found out that hidden economy in SEE remains widespread, perpetuates informality, which is linked to corruption, and signifies a substantial gap between formal and informal institutions. This gap is due both to underdeveloped formal market institutions and to the lack of coherent enforcement of the rules, often related to corruption. The immense diversity of scale (19 % in Croatia and 81 % in Kosovo), prevailing patterns (no written contracts in Turkey, non-payment of health care contributions in Kosovo, envelope wages in Macedonia and Bulgaria, non-formalised business in Albania) and statistical estimation of the hidden economy to GDP across Southeast European countries requires tailor-made policies and sequencing of reforms. Working entirely in the formal sector as compared to the hidden economy earns significantly higher wages in Bosnia and Herzegovina, Albania and Turkey, slightly higher in Macedonia, Serbia and Montenegro, and about the same or slightly lower in Kosovo and Bulgaria. However, sustained high-levels of the hidden economy in SEE coupled with systemic petty corruption, low trust in public institutions, and, in some cases, ambiguous national identity, has resulted in a change of the tax morale and lower revenues for governments in the region.

To further discuss these findings the Sheffield University Management School, UK, the SELDI initiative and the Center for Liberal-Democratic Studies

(CLDS), Serbia, held a round table *Tackling Undeclared Work and Hidden Economy in Southeast Europe: Improving Governance and Prosperity* on 13 December 2016 in Belgrade, Serbia. Prof. Colin Williams from the Sheffield University Management School, University of Sheffield, UK, Ana Mickovska-Raleva, Policy Analyst, Center for Research and Policy Making (CRPM), Macedonia and Josip Franic, Researcher, Institute of Public Finance, Croatia shared their knowledge and experience at the event.

IV. Competitiveness and the knowledge economy

In 2016, CSD continued its work on the study of the competitiveness of the Bulgarian economy and the innovation potential of the Bulgarian economy. Experts from the Economic Program contributed actively in the development of the annual publication *Innovation BG*. The report makes recommendations for improving the public policies for



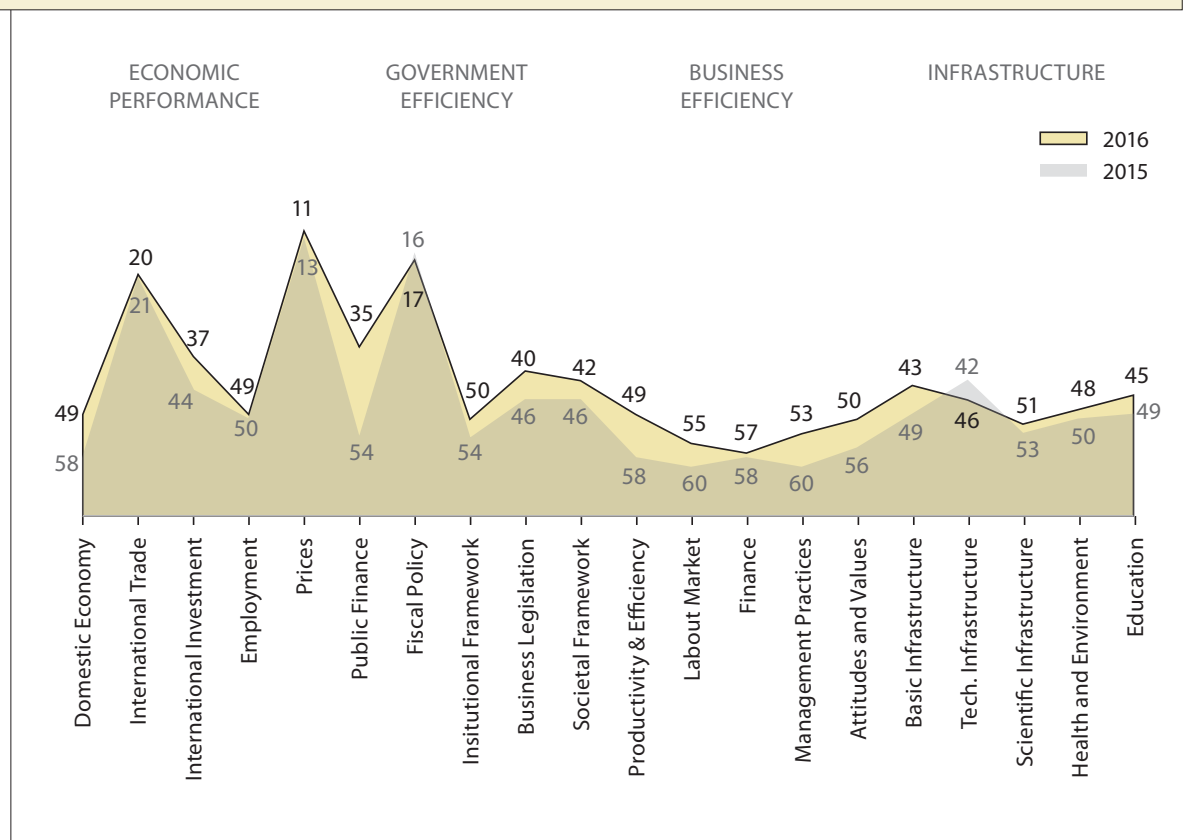
innovation in Bulgaria and in the EU, building on the most recent theoretical and empirical studies in the world and taking into account the specific economic, political, cultural and institutional framework in which the country's innovation system operates. Over the past 12 years, *Innovation.bg* has made a number of specific proposals for improving the country's innovation policy and practice, which have been supported by business and academia. The lack of specific and sustainable actions by Bulgarian governments on the proposals made – despite their commitment to the process at the highest political level – reveals a **serious institutional deficit in development and application of relevant policies in the field**. *Innovation.bg 2016* analyses the status and potential for growth of the

national innovation system based on five groups of indicators:

- aggregate innovation product;
- entrepreneurship and innovation networks;
- investment and financing for innovations;
- human capital for innovation;
- information and communication technologies.

Innovation.bg 2016 focuses on the country's talents and the potential to identify, develop and attract talents; the potential to manage them appropriately and to develop national and regional competences on that basis. Innovation is a function of the creativity, out-of-the-box thinking, imagination, passion and perseverance of people who have

Changes in the Competitiveness Landscape of Bulgaria 2015 – 2016, IMD 2016



the potential to generate ideas and the knowledge to convert them into successful new products and business models.

The Economic Program continued analyzing the barriers to the Bulgarian business and provided recommendations for improvement of the overall competitiveness landscape. CSD is partner for Bulgaria of the World Competitiveness Center at IMD (International Institute for Management Development), Switzerland, which publishes the *World Competitiveness Yearbook*. The Yearbook has had a direct impact on the Bulgarian competitiveness policy-

making. International investors monitor very closely the IMD competitiveness ranking. CSD presented the results of the *IMD World Competitiveness Yearbook 2016* during a [press conference](#) on 30 May 2016. The profile of the Bulgarian competitiveness for 2016 shows detachment from the bottom, after nearly five years of stagnation. In 2016, Bulgaria ranks 50th out of 61 economies, which is an improvement of five places compared to 2015. The Bulgarian economy, however, remains among the most uncompetitive in Europe, with only Greece, Croatia and Ukraine having lower scores.

Sociological program

The work of the Sociological Program in 2016 was focused on integration of migrants, social inclusion of vulnerable groups, trafficking in human beings, and prevention of radicalisation leading to terrorism.

- **Integration of migrants and social inclusion of vulnerable groups.** A national study on domestic and gender-based violence and development of victim support model, with specific focus on Roma women and girls, was conducted.
- **Counter trafficking in human beings.** The use of Internet and mobile applications in the processes of trafficking in human beings and smuggling of illegal migrants and persons seeking international protection was studied. An explorative analysis of the Web was carried out to understand the role of the Internet in the recruitment and exploitation phases of the trafficking and smuggling processes.
- **Prevention of radicalisation leading to terrorism.** A central research topic was the radicalisation leading to terrorism in Bulgaria, Greece and the Czech Republic. Two methodological instruments were developed, related to the identification of risks of radicalisation and to the situational analysis of extremist trends. National studies and reports were drafted to test the applicability of these instruments at national level and to serve their fine tuning.
- **Monitoring of migration.** The Sociological Program led the drafting of the Annual Report on Migration and Asylum Policy for the European Migration Network, providing comprehensive account of policy and legal developments in Bulgaria for 2015. An initiative aimed at the development and implementation of unified standards for forced return monitoring of migrants was launched.

I. Integration of migrants and social inclusion of vulnerable groups

National Study on Domestic and Gender-Based Violence (DGBV) and Elaboration of Victims Support Model (VSM)

In 2016, the Sociological Program in cooperation with the CSD Law Program, Partners Bulgaria Foundation and the Human Rights Academy, Norway, con-

ducted a National Study on Domestic and Gender-Based Violence and elaborated a Victims Support Model (VSM).

Bulgaria is among those half of the EU-member states where statistical information about victim-offender relationship is not gathered, hereby making impossible the assessment of the share of domestic violence among the crimes against the person. Domestic violence (DV) is not qualified as a criminal of-

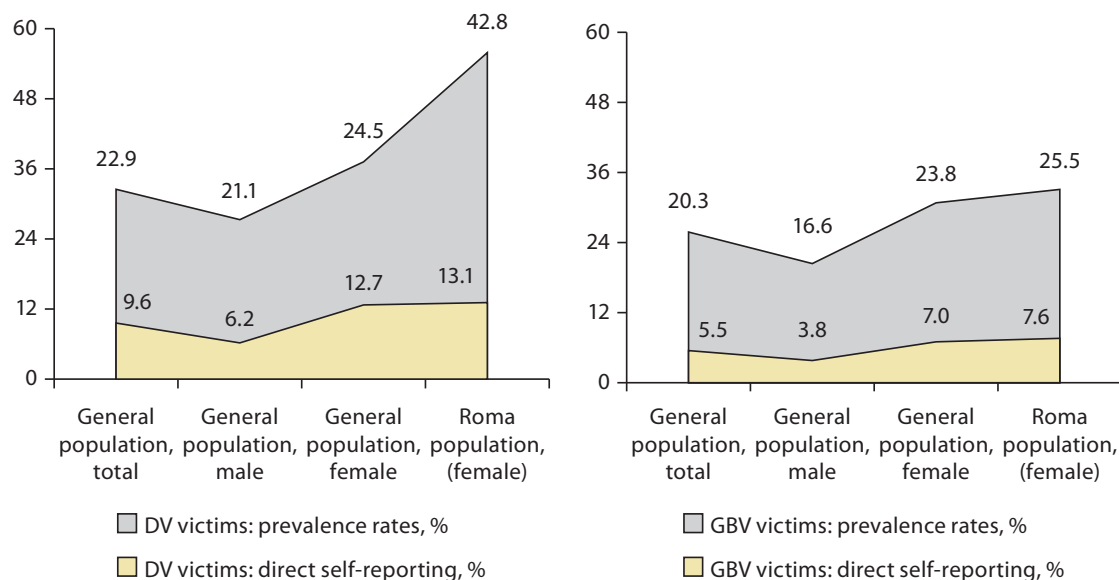
fence and is still not included in the *Criminal Code*, and, respectively, in the statistical data provided by the Police and by the National Statistical Institute. Information about the number of complaints for domestic violence registered at the Police and the number of domestic violence cases submitted to court is not present in the publicly available statistics, either.

Based on several nation and EU-wide surveys conducted since 2000, the share of women victims of domestic and gender-based violence is estimated at a quarter of the female adult population. *National Study on Domestic and Gender-Based Violence in Bulgaria* has been prepared outlining the methodological approach and the findings of the work that has been done in terms of the four problematic areas: factors and causes, scales and prevalence, consequences and public response.

The study defines two main groups of factors and causes for DGBV that may partially overlap, but still differ significantly: factors and causes for victimisation, connected predominantly with the environment, characteristics and behaviour of the perpetrators; and factors and causes for re-victimisation, connected predominantly with the environment, characteristics and behaviour of the victims.

The national study confirms the hypothesis that DV and GBV are phenomena with higher levels of concealing and unawareness, not only on the part of perpetrators, but also on the part of victims. For this reason, the figures do not represent the share of those really affected by different forms of DGBV and this is valid for all surveys held in this context. Three main factors influence reporting: real occurrence, awareness of the occurrence as violence, and

Reporting gap in DGBV victimisation by gender and ethnicity



Base: General population aged 15+, N = 2503 (male N = 1209 and female = 1294);
Roma females aged 15+, N = 400.

Perpetration of the last DGBV incidents: % of cases



Base: 1105 DGBV incidents with general population male victims, 1738 DGBV incidents with general population female victims, 867 DGBV incidents with Roma population female victims.

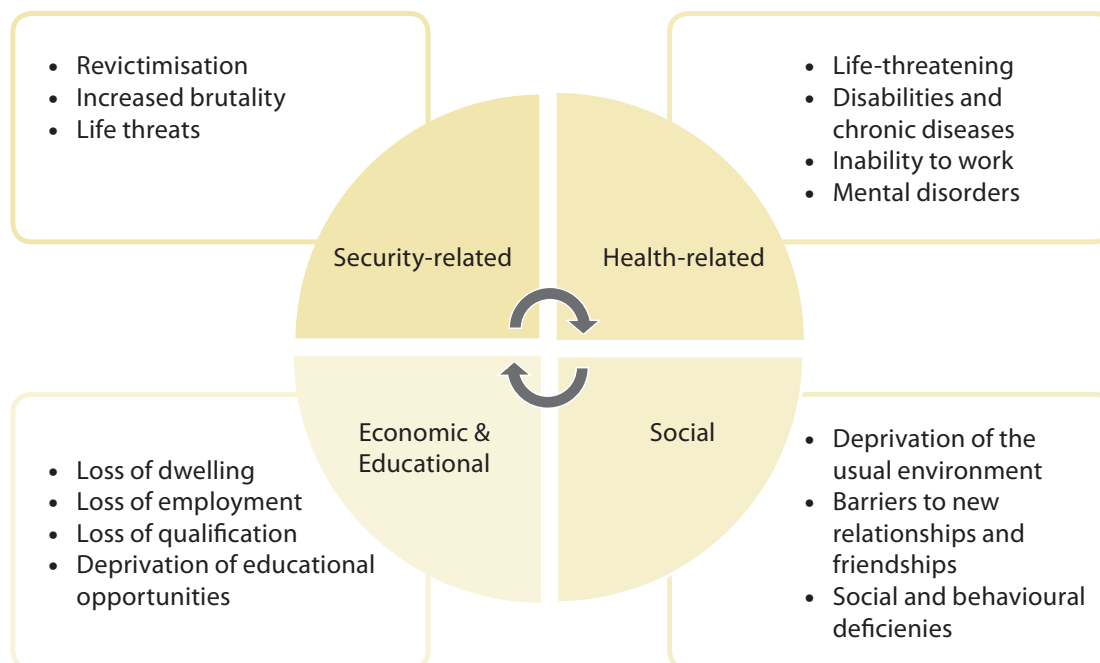
willingness to share it. Although a quarter of men and a third of women among the general population, as well as nearly half of Roma women and girls shared that they have experienced some type of DGBV in their lifetimes, the share of those who aware that have become DGBV victims is several times as low.

Although the share of men victims of different DGBV forms seem significant and higher than expected, women are still more vulnerable, as they suffer from multiple, repeated and systematic violence more frequently. Also, Roma women and girls are more vulnerable than those among the general population. The gender analysis of the most recent cases of DGBV that the respondents reported shows that nearly two thirds of the perpetrators are men and that women clearly predominate among the victims. Still, four out of ten victims of DGBV are men.

The consequences of DGBV for victims could be summarised in four main groups:

- **safety-related**, such as: fear of re-victimisation, real occurrence of re-victimisation in a substantial share of cases, increased brutality of the violence and life threats;
- **health** consequences, such as: provoked auto-immune disease or life-threatening physical trauma, short-term or long-term disability, life-long chronic conditions, triggered or deteriorated heavy mental disorders, depressive, panic and sleep disorders;
- **economic or educational**, such as: loss of dwelling (usually the only one), long-or sort-term inability to work, loss of employment, loss of qualification/educational opportunities, all of them connected with deteriorated current and future labour market opportunities;
- **social**, such as: deprivation of the usual environment, inability or re-

Consequences of Domestic and Gender-Based Violence



luctance for new relationships and friendships, and, in the case of children, a risk of interiorisation of wrong behavioural, family and gender models, as well as a number of social deficiencies: communicational, behavioural, verbal, etc.

Although the assessments of the effectiveness provided by the representatives of law-enforcement bodies and helping organisations are high, they list a significant number of unmet needs of DGBV victims and, respectively, deficiencies in their protection and recommendations for improvement. These could be grouped in several main types:

- **direct needs** of overcoming the trauma and the economic and psychological dependence, such as crisis and subsequent accommodation, extended psychological treatment and consultation, and financial support;
- **protection-related needs** of overcoming the re-victimisation and the feeling of impunity of the perpetrators, including claims for criminalisation of all forms of DGBV, wider powers for law enforcement bodies to intervene when the victims are unable or unwilling to accuse the perpetrators, and stricter sanctions;
- **perpetration-oriented** needs/recommendations for a greater number of more effective prevention activities, monitoring and analysis of the causes, measures against the perpetrators, as well as measures to help the perpetrators overcome the causes driving them to violence;
- **needs of the professionals** servicing the victims, such as: more and better trained human resources; regular

supervision and professional support; greater material resources for implementation of the tasks, as well as better cooperation with and more active involvement of other state and municipal institutions.

The *Victims' Support Model* is based on the approach addressing domestic and gender-based violence as a problem of public health. It consists of practically-oriented advice to potential victims and supporting specialists about feasible actions in the areas of law enforcement, healthcare, and support services, and the respective functions of the institutions and organisations involved in each separate aspect of support and protection.

The major recommendations and policies drawn on the basis of the national study have been drafted in a policy brief. Recommendations are grouped in seven main areas: monitoring and evaluation, prevention, crisis measures, focus on

perpetrators, after-crisis support, improved cooperation and resources. The key points are listed below:

- The public actors engaged in counteraction of DGBV, as well as the general public do not possess common systematic statistical data and expert evaluations needed for regular monitoring.
- Prevention activities in the country are still occasional and dependent on the good will and resources available to specific actors.
- The system for crisis intervention, protection and support of victims has proved its adequacy and usefulness; however, it still remains inaccessible to victims in the greater part of the country.
- Protection of victims in situation of crisis is of vital importance, but is not sufficient. A system of after-crisis measures should be developed and implemented tailored to the specific needs of each victim.



Participants at the workshop in Kavarna, 18-19 May 2016



Field visit to the Hadji Dimitar quarter in the town of Kavarna, 18-19 May 2016

- Measures should not be victim-focused only. Multi-aspect and systematic measures targeting the perpetrators should be developed and enforced. This should include educational programs on violence prevention among boys and young men.
- Inter-institutional cooperation should be further developed and regulated in the law.

The results of the study are presented to a range of stakeholders. Dissemination events include a seminar for exchange of best practices from Norway in the work with victims of domestic and gender-based violence, a press conference and a [closing seminar](#) with relevant national authorities and representatives from the civil sector.

Roma Integration across the Danube: Best Practices and Social Entrepreneurship Models Exchange between Romania and Bulgaria

In 2016, the Sociological Program extended its work on informing the policy debates on social inclusion and challenging negative attitudes and “othering” of Roma.

With the vast majority of Roma population in Europe (80 %) living in the Danube region, a framework for cooperation and sharing of best practices and knowledge is fundamental in promoting efficient Roma integration policies in the region. While Roma inclusion actions have been supported in the last years through some European funds, the effects remain limited, at least in the south of Romania. While Romanian civil society have successfully implemented social economy initiatives (ex. Romano Butiq’s small Roma crafts

co-operatives), municipalities are lagging behind in providing improved living standards to the Roma. In Bulgaria, on the other hand, Kavarna has become in recent years a model for its comprehensive approach to Roma integration. Nevertheless, social economy initiatives dedicated to Roma are yet to be developed to the South of the Danube.

The initiative facilitated useful exchange of experience between municipalities, civil society and Roma entrepreneurs from the two countries on the topic of Roma administrative integration (as experienced in Kavarna) and social entrepreneurship (as experienced in Romania). It also encouraged potential common projects and highlighted financing opportunities.

On 18-19 May 2016, in the city of Kavarna, CSD hosted a [workshop](#) focusing on the exchange of experience and best practices between different stakeholders from six Danube municipalities. The event was attended by representatives from municipalities Ramnicu Sarat (Buzau County), Ludesti (Dambovita County) and Craiova (Dolj County) from the Romanian side

and Kavarna, Lom and Razgrad from the Bulgarian side.

The meeting was devoted to sharing the unique experience of Kavarna in the integration of Roma communities. A particular focus was put on the general philosophy of ongoing policies based on the principle of equality between ethnic groups; the approach relying primarily on the active involvement of the community in solving issues that affect them; and the main achievements in terms of political representation, infrastructure, housing, education and employment. The study *Socio-Economic Effects of Public Investments for Roma Inclusion in Kavarna* was conducted by a CSD team in 2015. A field visit to the Hadji Dimitar quarter in Kavarna was organized to present the practical impact of Roma integration policy.

II. Trafficking in human beings

In 2016, in cooperation with the University of Trento (IT) and Teesside University (UK), the Center for the Study of Democracy continued its work on improving and sharing knowledge on the



Information on the number of people affected by trafficking in human beings and smuggling in the EU posted on the webpage of the initiative, www.surfandsound.eu

Internet role in the human trafficking process.

An explorative analysis of the Web was conducted in order to understand the role played by the Internet in the recruitment and exploitation phases of the trafficking and smuggling processes. Research protocol was used for the administration of in-depth interviews of key actors in human trafficking and smuggling processes. The results from the studies conducted were summarised in two separate reports.

The report providing an overview of a web-based research on the use of Internet in the course of trafficking of human beings in Bulgaria was based mainly on a comprehensive sample of offers for women and girls to become sex workers for escort agencies abroad. In addition, the research has also focused on instances of recruitment offers for cheap labour in other EU member states. Most of the job advertisements – both for sexual services and cheap labour – are dubious and unclear in content and are thus considered as risk web links. While direct evidence for trafficking could not be obtained from this research process alone, it contributes to the enhanced identification of online sites which potentially facilitate the recruitment and transportation of victims of THB, and serve as effective communication channels between traffickers.

The exploration of the web has focused predominantly on job offering websites, social networks, marriage agencies websites and escorts' websites. In the course of the research process more than 190 cases have been identified as a potential risk for trafficking of human beings. The majority of the samples are related to recruitment for sex services abroad, but there is also a brief focus on recruitment and transport for cheap labour. With the wide entry of infor-

mation technology in Bulgaria and the country's membership in the European Union, more and more Bulgarians are looking for decent and well-paid employment opportunities abroad and the virtual world serves as one the quickest and easiest means to that end.

The second report presented the main results of the in-depth interviews conducted in Bulgaria within 10 months, between June 2015 and March 2016. The interviews aimed at preliminary exploration of the use of Internet in two processes: trafficking in human beings, and smuggling of refugees and illegal migrants. They include four groups of respondents: traffickers/smugglers, victims of trafficking/illegal migrants/asylum seekers, representatives of law enforcement agencies, and representatives of NGOs working in the field of THB.

According to the interviewed persons, the Internet is largely used both in trafficking and smuggling, at recruitment and exploitation phases. In the case of trafficking, the Internet seems to play bigger role than in case of smuggling, and Facebook is rather an additional than a main instrument for recruitment. Most used for this purpose are the dating sites and the job sites, in trafficking for sexual and for labour exploitation, respectively. Although Facebook is largely used, it is perceived as a harder way for recruitment in comparison with the dating sites. However, regardless whether Facebook or dating sites have been used, in all cases the communication is made through private chats.

The mobile applications, as WhatsApp and Viber, along with more traditional means like Skype, phone calls and emails, are used for several different purposes:

- communication with partners within the country and abroad, during all

phases of sex trafficking, labour trafficking and smuggling;

- communication with clients abroad, during the recruitment phase of smuggling, recruitment and transportation phase of labour trafficking, and the exploitation phase of sex trafficking;
- communication with potential victims during the recruitment phase and with actual victims during the exploitation phase of sex trafficking.

For both types of trafficking, the Internet is hardly related to the transportation phase. Mobile apps are used only to arrange the time and place of arrival of the new victims. In the case of smuggling, they might be used by migrants to arrange the details with the smuggler; but having in mind the illegal crossing of the border, traditional phone calls are more feasible.

The recruitment process in the cases of trafficking for sexual exploitation is estimated as Internet assisted to an increasingly great extent. Some of the respondents among traffickers, victims and NGO representatives are inclined to say that the majority of cases are not Internet-assisted yet, while other victims and NGO representatives, as well as the LEAs representatives, tend to estimate the share of Internet recruitments up to half of the cases.

III. Radicalisation leading to terrorism

Countering Radicalisation in Southeast and Central Europe through Development of Monitoring Tools

Together with the Security Program, the Sociological Program continued its work on understanding radicalisation in Southeast and Central Europe. This ini-

tiative addresses key needs in the area of counter-radicalisation and achieved several important results:

- assessment and transfer of de-radicalisation experience from the EU MS with more advanced experience in monitoring, countering and preventing radicalisation.
- design and promotion of radicalisation monitoring tools tuned to the national contexts in Bulgaria, the Czech Republic and Greece.
- initiation of informed monitoring of radicalisation and recruitment that might potentially lead to acts of extremism and terrorism.
- enhanced capacity of law enforcement, policy makers and civil society to understand processes of radicalisation and vulnerability risks.

A Tool on Monitoring Radicalisation was drafted to aid intelligence and law enforcement institutions in conducting risk assessments with regard to radicalisation and extremism. The Tool is constructed based on the provision of critical review of radicalisation diagnostic tools and approaches in the EU, as well as on national background studies and methodology testing studies in Bulgaria, Greece and the Czech Republic.

A [workshop](#) on the topic took place in June 2016. Participants discussed results from pilot country studies for testing of the proposed tools and their possible fine tuning.

Two national publications are prepared: a Tool for Understanding, Assessing and Monitoring Radicalisation Risks and a national report on the risks of radicalisation in the Iztok quarter of the town of Pazardjik, and a Guide on Compiling Situational Analysis of Extremist Trends combined with a national report assessing the applicability of the methodology in the Bulgarian context. The



The participants in the expert workshop, 28 June 2016, Sofia

two publications are groundbreaking work that sets the framework of understanding processes of radicalisation and the manifestations of radicalisation and vulnerability risks in Bulgaria. They are to serve as standard reading for law enforcement officers, civil society as well as academics who have to deal with issues of monitoring or preventing radicalisation and extremism. The Guide on Compiling Situational Analysis of Extremist Trends will serve for lobbying purposes and development of the system of data collection and analysis in Bulgaria. The Tool for Understanding, Assessing and Monitoring radicalisation Risks will serve as a basis for inter-institutional discussions for the development of radicalisation and risk monitoring indicators in Bulgaria.

IV. Expert advice to key governmental stakeholders

Supporting the development of the Annual Report for the EMN

In 2016, for a fourth year the Sociological program, in cooperation with the Security and the Law Programs, lead the drafting of the *Annual Report on Migration and Asylum Policy in Bulgaria* for the European Migration Network. The report provides comprehensive account of annual policy and legal developments in the fields of legal migration and mobility, citizenship and naturalisation, visa policy and Schengen governance, border monitoring, asylum, trafficking in human beings, migration and development, integration, irregular migration and return.

Development and implementation of unified standards for forced return monitoring

Building on the experience in elaborating pilot mechanism for monitoring of forced return operations in Bulgaria, in 2016 the Sociological Program, in partnership with CVS – Bulgaria, launched an initiative to develop and test unified standards for forced return monitoring.

The initiative aims to contribute to the development of a common EU policy on asylum and migration, as well as contribute to strengthening the area of freedom, security and justice in the application of the principles of solidarity

and sharing of responsibilities between Member States and cooperation with third countries under *Regulation (EC) № 516/2014* of the European Parliament and the Council.

The initiative will enhance the regulatory framework at national level in the field of forced return by developing unified standards for monitoring. It will develop and improve concrete mechanisms for monitoring and ensuring respect for fundamental rights and freedoms of third country nationals who are undergoing a procedure of forced return, and will help build and strengthen the capacity of all stakeholders involved.

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Security program

In 2016 the Security Program activities focused on the following areas:

- **Countering organized crime, financial crimes and racketeering.** The study *Extortion and Racketeering in the EU: Vulnerability Factors* was published, along with a model for estimating the vulnerability of businesses. The study examined the Italian experience in countering extortion and racketeering. Its results were presented at several international conferences. Further advances were made in the areas of understanding the role of corruption in trafficking in human beings and in developing effective methods for countering money laundering in Bulgaria.
- **Countering radicalization and terrorist threats.** The Security and Sociological programs published the report *Understanding Radicalisation: Review of Literature*, presenting the key academic concepts and debates on radicalization leading to violence. Practical tools for the identification, monitoring and analysis of risks and trends of radicalization and extremism in Bulgaria were developed. These tools will lay the foundation of designing specific measures and policies for prevention of radicalization and for better understanding of radicalization by first line officers, and also by law enforcement and intelligence services.
- **Enhancing the governance of the private security sector.** A study on the private security firms and their management practices was completed in 2016. The analysis covered the role of the public security sector in protecting critical and strategic public infrastructure, as well as in provision of security services in rural and remote regions of Bulgaria. The efforts of this area provide better understanding of the risks and challenges to good governance in the private security sector, and will improve its interaction with police.
- **State capture and the role of media.** The report *Media and Political Influence* identified the challenges to the Bulgarian media sector under state capture. It highlighted the risks posed by the lack of independent and balanced media and transparency in media ownership, and made policy recommendations for enhancing media independence and investigative journalism.
- **Border security.** An evaluation of the External Borders Fund, commissioned by DG Migration and Home Affairs was completed. It covered all EU Member States and the Schengen area countries which are not EU members. CSD re-affirmed its reputation of a reliable partner to the European Commission in the area of border security and was awarded to conduct a forward-looking analysis of the challenges to EU border management beyond 2020, as part of the EC preparation for the next multiannual funding period.

I. Countering organized crime, financial crime and racketeering

Countering extortion racketeering: the European experience

In 2016, the Security Program completed its research on the forms of extortion racketeering, which includes also the assessment tools that could be used for improving the work of investigation services. The research findings were presented at a number of national and international events.

Extortion racketeering has been long identified as the defining activity of organized crime in accumulating financial resources and infiltrating the legal economy. Although it was not included in Europol reports on serious organised crime threats, this crime affects all the European countries, albeit in different ways. Only a few European countries have managed to develop proactive approaches and preventive methods for countering racketeering. Police authorities in most EU Member-States have adopted a rather passive approach and limit their investigation of this type of crime to cases where victims have filed complaints. Conversely, as a number of businessmen are actively engaged in the grey and black economy, in most cases of racketeering the victims refrain from reporting to the authorities. Typically, most instances of racketeering remain unregistered. Preventive and proactive police activities aiming to address the specific challenges that victims face and to encourage them to report the crimes they have been a victim of remain rare. Italy is one of the few countries which have developed and introduced such a proactive police approach in regards to racketeering.

The study of efficient instruments for assessing extortion racketeering through facilitating the sharing of experience

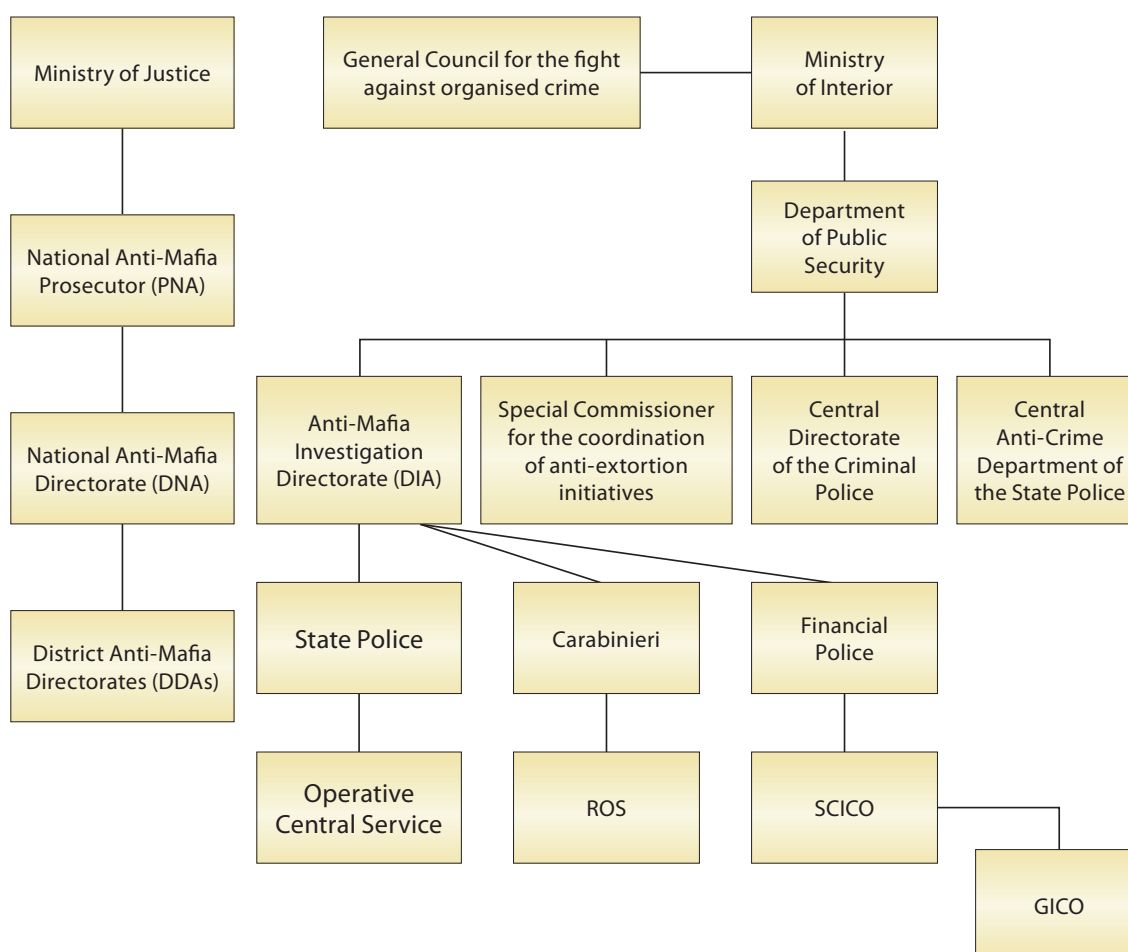
among different institutions involved researchers from three institutions – CSD (and its subsidiary Vitosha Research), Instituto de Ciencias Forenses y de la Seguridad – Universidad Autonoma de Madrid, and Transcrime – Univercita Cattolica del Sacro Cuore di Milano. The study was supported by Bulgarian police authorities and the Special Prosecutor’s Office, Guardia Civil and the National Police of Spain, the National Police of Italy, the Italian Prosecution, as well as a number of Italian anti-racket associations.

The main findings of this effort were included in a report entitled *Extortion racketeering in the EU: vulnerability factors*. The report analyses extortion racketeering forms and practices in the EU countries, assessing the risk and vulnerability factors for enterprises in two business sectors – agriculture and hospitality – as well as in the Chinese communities. The study analyses the social and legal aspects, the institutional and economic environments, and the profile of both victims and criminals in order to identify the circumstances that lead to extortion racketeering in these two sectors, and in the Chinese communities.

Drawing on the result of the analyses, the report argues that the concept of extortion racketeering as crime perpetrated by organized crime groups should also be extended to include **systemic use of extortionist practices by organized groups or networks of public officials and corporate executives**. Extortionist groups or networks involving public officials and corporate executives have been identified in Bulgaria, Romania Greece and Spain in cases related to extortions in the agricultural sector and to a lesser extent in the hospitality sector. However, the identified cases included all elements of extortion racketeering:

- they are form of organised crime – they were perpetrated by three or more persons acting in coordinated manner;
 - they were systemic – practiced against more than one company and were continuous in time;
 - they involve coercion – i.e. forcing the victim in a given behaviour using threats through position of power;
 - they involve patrimonial damage for the victim – i.e. loss of current or future incomes and loss of property rights.
- The second research paper, *Countering extortion racketeering: the Italian experience*, describes the Italian authorities' approach in countering this crime:
- A Special Commissioner is responsible for nation-wide coordination of anti-extortion and anti-racket activities and initiatives.
 - A Solidarity Fund operates for the benefit of victims of organised crime, extortion, and usury.
 - Protective policies and measures, such as those for the protection of

The Italian institutional framework for countering organised crime and extortion racketeering




Source: Italian Ministry of Interior, Italian Ministry of Justice, authors' elaboration.

collaborators and witnesses of justice, are in place.

- A legal framework is present, which enables civil society organisations to take part in the fight against organised crime and mafia-type activities, particularly as regards victim support.
- Social re-use of confiscated assets is particularly important because of its symbolic and economic significance.

A new methodology for sectoral assessments of the vulnerability to racketeering and extortion in both the agricultural and the hospitality sector in Bulgaria was developed, in addition to assessment of the vulnerability of migrant communities. It was presented in a Policy Brief. The methodology is an useful tool designed to assist law enforcement institutions in assessing and



**EXTORTION RACKETEERING:
THE VULNERABILITY ASSESSMENT APPROACH**





Policy Brief No. 63, September 2016

Extortion racketeering has long been pointed out as the defining activity of organised crime. It has also been identified as one of the most effective tools used by organised crime in the accumulation of financial resources and the penetration of the legal economy. Although in recent years this crime has not been among the top listed organised crime threats in the strategic EU policy documents, it still remains ever present in European countries. The seriousness of the phenomenon has been recognised at the EU level and the crime has been listed in a number of EU legal acts in the field of police and judicial cooperation in criminal matters.

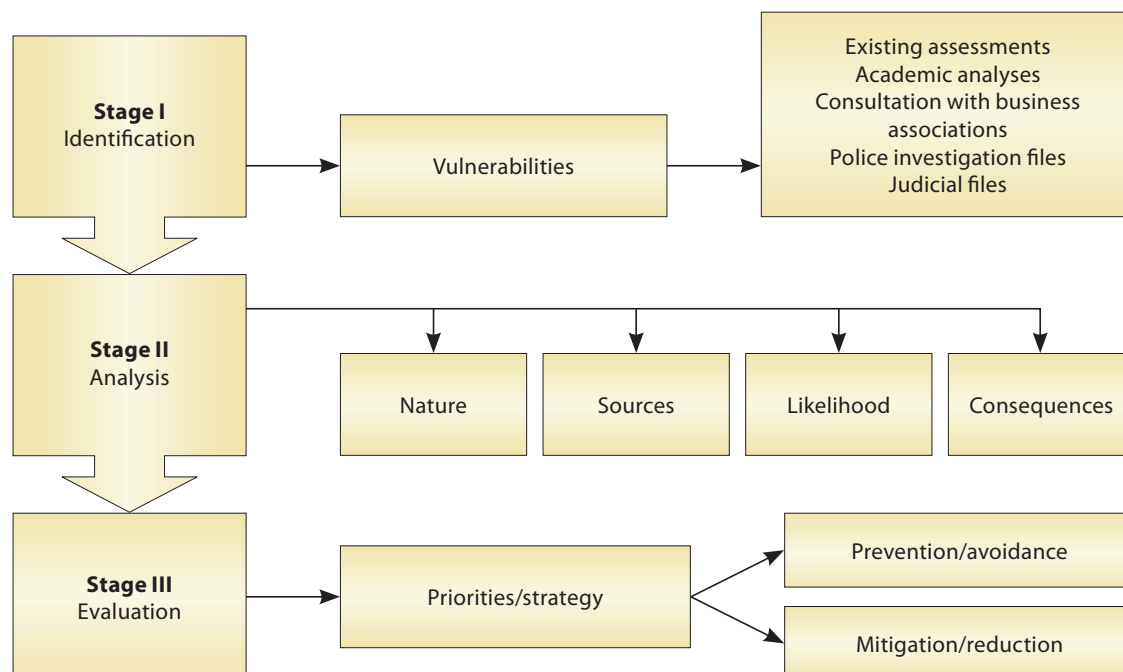
Extortion racketeering is a latent form of crime, infamous for the low rates of reporting by the victims. There are, however, a number of factors that hinder reporting by victims to the police – indolence, operating in the grey economy, fear of reprisals, lack of trust in public authorities due to their low capacity or corruption. The imminent presence of such factors results in low registration rates and authorities being unaware of the real scale of extortion rackets in their country. Standard business victimisation surveys, which are widely accepted alternative to police and judicial statistics, also often suffer from low response particularly with regards to extortion and protection racketeering and are therefore not reliable enough when it comes to assessing the full extent of the problem. For example, a recent report on the EU

KEY POINTS

- Extortion racketeering is a latent form of crime, infamous for the low rates of reporting by the victims, which result in authorities being unaware of the real scale of the problem in their country.
- The typical law enforcement approach is to investigate extortion incidents only when a victim files a report, whereas more pro-active policing and victim-focused prevention and support measures are needed in order to effectively tackle this type of crime.
- Sector vulnerability assessments could help government authorities to identify, assess and hence understand the risks related to extortion of businesses in a given economic sector.
- The vulnerability approach emphasises the examination of opportunities provided to organised crime groups by legitimate business and the broader socio-economic environment.
- The assessment of the vulnerabilities to extortion of specific sectors and social groups is a useful tool that can facilitate prevention and investigation of extortion racketeering through enhanced deterrence and detection.
- Vulnerability assessments aim at: a) ensuring better allocation of resources by competent authorities; b) informing the design of specific new policies or legislative measures; c) evaluating and adjusting administrative regulations or criminal justice tools and thus making them pertinent to the identified risks.

A methodology for assessing racketeering vulnerability



Source: CSD Policy Brief No. 63: Extortion racketeering: the vulnerability assessment approach.

understanding the risks related to racketeering in the different economic sectors through identifying sector-specific or community-specific factors enabling or facilitating extortion.

The vulnerability assessment:

- a) contributes to the better allocation of internal resources of the institutions empowered with countering racketeering and extortion;
- b) assesses and adapts the administrative regulations and instruments used by law enforcement services in countering the risks under consideration;
- c) assists in formulating new policies and legal measures.

The various methods for assessing vulnerability to extortion racketeering were presented at several events that took place in 2016. A round table dedicated to

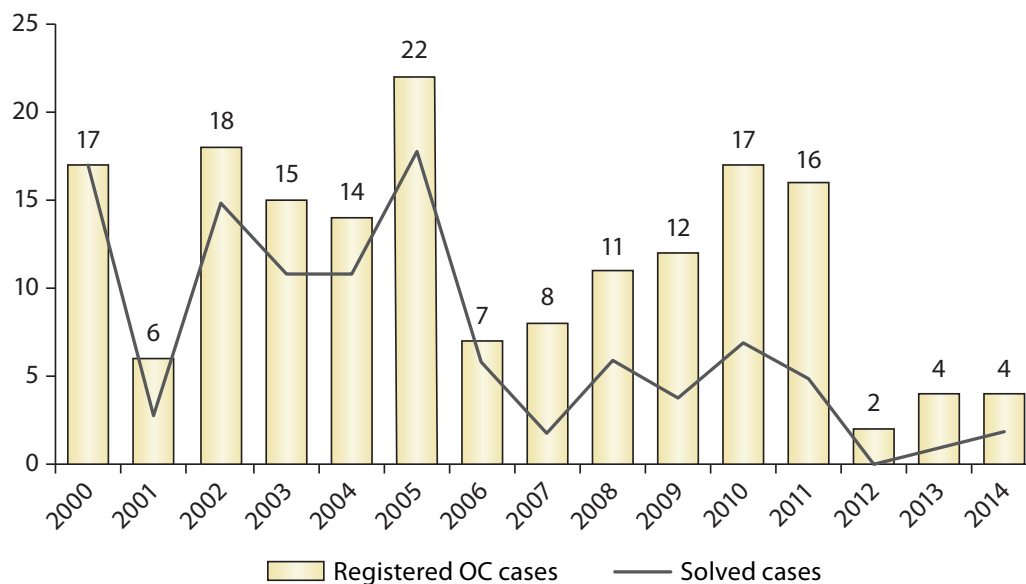
the issue of extortion racketeering and the ways of tackling this criminal phenomenon was organized by the Center for Study of Democracy and took place on 19 May 2016. The round table was attended by representatives of Transcrime of Università Cattolica del Sacro Cuore of Milan, the Italian police, the Prosecutor's Office of the Italian Republic, the Bulgarian Specialized Prosecution Office of Appeal, Directorate General for Combating Organized Crime, the National Police and the AFCOS Directorate of the Interior Ministry, the Inspectorate of the Ministry of Agriculture and Food and the Inspectorate of the Ministry of Tourism.

The round table also discussed the practices of extortion racketeering in the Bulgarian agricultural and hospitality sectors, including the risks and factors of vulnerability in these sectors.



*Participants in the round table on Countering Extortion Racketeering:
The European Experience, 19 May 2016*

Cases of racketeering related to the organized crime



Source: Extortion Racketeering in the EU: vulnerability factors.

The main causes behind extortion racketeering in the agriculture include a strong misbalance in land ownership, European subsidies distribution practices, the absence of small agricultural producers' associations, and local corruption. The need to give priority of investigating the organized forms of extortion racketeering by officials was especially emphasized.

Several factors behind racketeering in the hospitality business were identified, including the existence of a sizeable grey sector, the traditional activity of criminal structures, and the low administrative capacity, additionally burdened by corruption practices.

An important focus at the round-table discussions was Italy's experience in countering extortion racketeering and organized crime. Participants examined the current state of organized crime in

Italy, involving national groups of Mafia type who use extortion to impose their control over territory, as well as foreign organized crime groups from countries in Eastern Europe and East Asia (China), which use racketeering of citizens and businesses within their own communities. Representatives from the Italian police and prosecution discussed the measures which the Italian state and criminal justice institutions use to encourage victims to testify, which serve as a preventive tool.

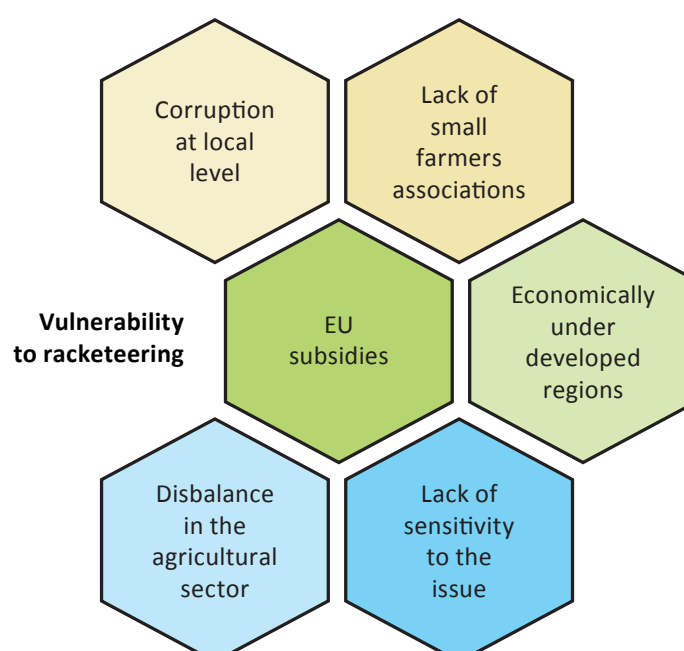
Extortion racketeering practices among Chinese immigrants, in addition to the activities of Italian anti-racketeering associations were discussed at a seminar on *Countering extortion racketeering in the EU*, which took place on 26-27 May 2016 in Milan. In addition, representatives from law enforcement institutions, magistrates and researchers from Italy, Greece, Bulgaria, Spain, Croatia,

Table 1. Distribution of CAP Direct Payments in 2013, for selected MS

Member state	The top x% of beneficiaries	Received x% of the CAP direct payments
Romania	1.1	51.7
Bulgaria	1.1	45.6
Hungary	0.9	38.5
Poland	2.0	28.5
Germany	1.2	28.4
Italy	0.8	26.3
Spain	1.3	23.4
UK	0.9	14.4
France	1.2	9.0

Source: Extortion racketeering in the EU: vulnerability factors.

Vulnerability to racketeering factors in the agriculture sector



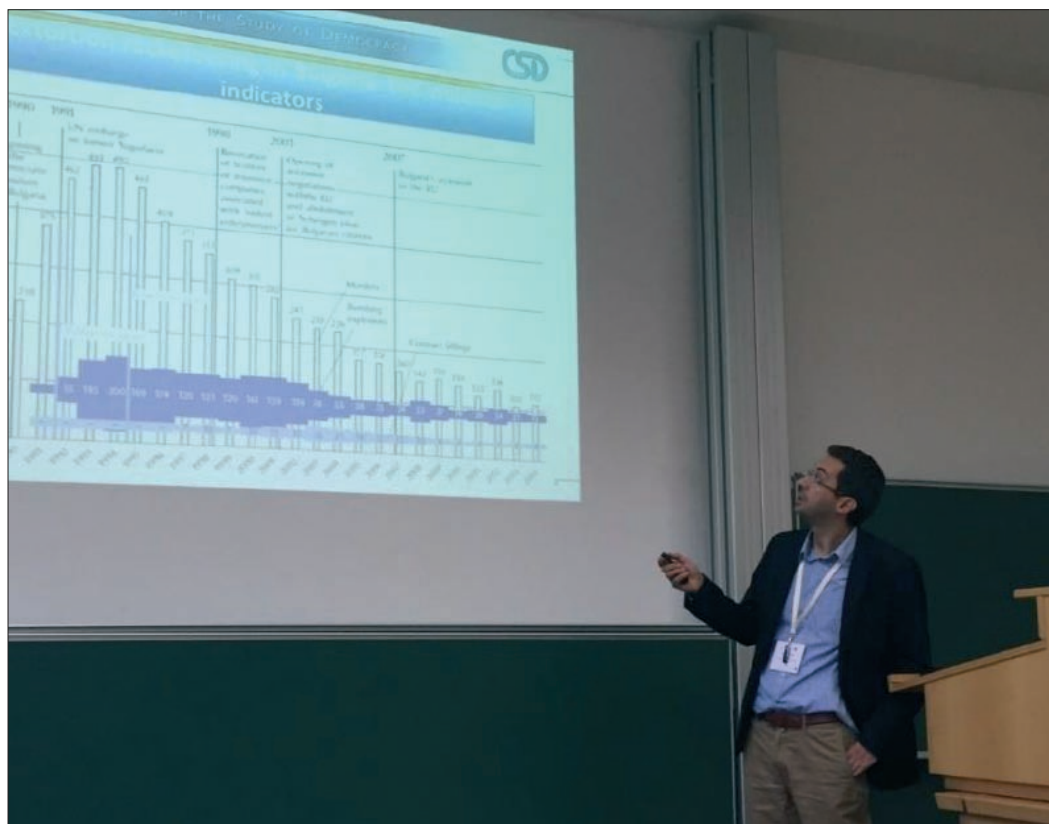
Source: Extortion Racketeering in the EU: vulnerability factors.



Participants in the conference on Countering Extortion Racketeering in the EU, Milan, 29 September 2016



Participants in the round table on Countering Extortion Racketeering in Bulgaria: Examining the Evidence and Devising Appropriate Measures



Dr. Atanas Rusev at the Annual conference of the European Criminological Association

the U.K., Poland, Ireland, Slovakia, the Czech Republic, Estonia, Slovenia, and Portugal, discussed the national specifics of the extortion racketeering phenomenon.

On 27 October 2016, CSD organized a round-table on *Countering Extortion Racketeering in Bulgaria: Examining the Evidence and Devising Appropriate Measures*. The meeting was attended by representatives of the Ministry of Interior, General Directorate National Police, General Directorate Combatting Organised Crime and the Sofia Court of Appeal. The participants discussed the application of methodology for sectoral assessments of vulnerability to racketeering. Several proposals were made for increasing the effectiveness of measures to cope with this threat, as well as for implementing best practices from abroad, such as “collaborators of justice” widely involved in the process in Italy.

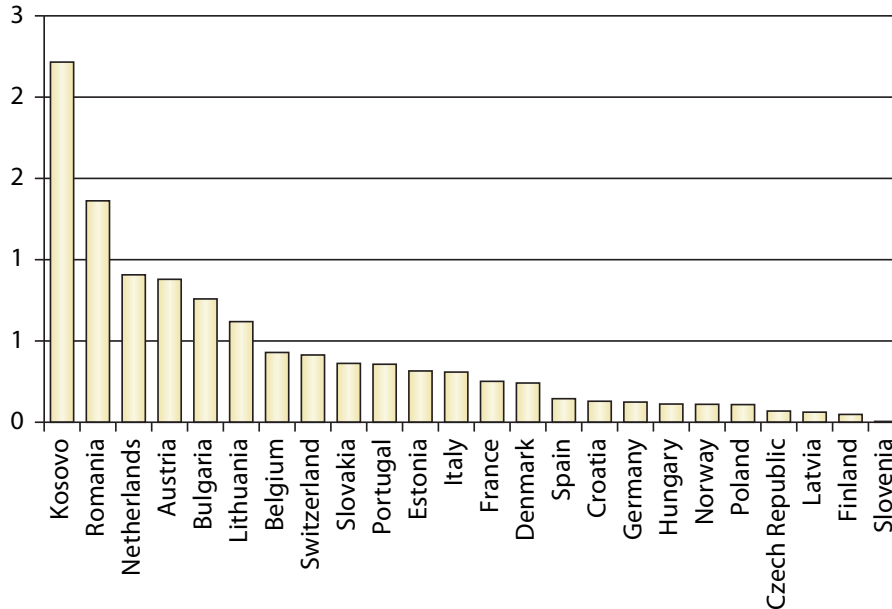
Conversely, Bulgaria’s poor record at the European Court of Human Rights was attributed to infringements the defendants’ right of fair trial due to unlawful means and undue use of special investigative means and protected witnesses to prove a crime in court.

On 23 September 2016 CSD experts organized an academic panel on the problem of racketeering in the EU in the framework of the Annual Conference of the European Criminological Association that took place in Münster, Germany. The presented reports focused on the national specifics and trends of racketeering in Bulgaria, Italy and Spain.

Corruption practices in human trafficking

Human trafficking continues to be a serious problem for the European Union. Being the third largest income-gener-

Convicted traffickers per 100,000 for 2014



Source: Population data (World Bank, 2015); Convicted traffickers (US Department of State, 2015).

ating criminal market worldwide surpassed only by drugs and arms trafficking, it is an important source of accruing criminal assets. Despite the emergence of new trends in human exploitation, the trafficking of women for forceful prostitution remains the most lucrative form of human trafficking. CSD experts and their colleagues from Italy, Kosovo and Croatia took part in a joint research project on **corruption practices in women trafficking with the aim of their sexual exploitation** in the four countries, also studying the effects of such practices on the victims.

Despite the significant share of this market, neither the main participants involved, nor the goals and corruption methods applied by them have been adequately analysed. Early in the 21st century this business mainly involved big criminal organisations; nowadays, however, as a result of free movement

and stronger police pressure, smaller criminal groups play an increasingly important part. Accordingly, current corruption practices seek to avoid criminal investigation and discontinue ongoing investigation or to clinch light sentences and acquittals. Therefore, the importance of corruption mediators has significantly grown, while direct corruption pressure is increasingly avoided. The findings were presented in two publications: *Corruption and Women Trafficking: The Bulgarian Experience*, and *Analytical Report: Corruption and Women Trafficking* which sums up the results of research on the subject in all four countries.

The main steps needed to increase the effectiveness of countering corruption in women trafficking include: increasing the capacity of in-house institutional units dedicated to countering corruption in police services and in the judiciary; raising the awareness on

the linkages between the two types of crime and the need for coordinated investigative approach in dealing with them; improving the effectiveness of gathering and analysing intelligence data, giving impetus to international police cooperation; putting in place better safeguards for trafficking victims; and encouraging reporting these crimes to the police.

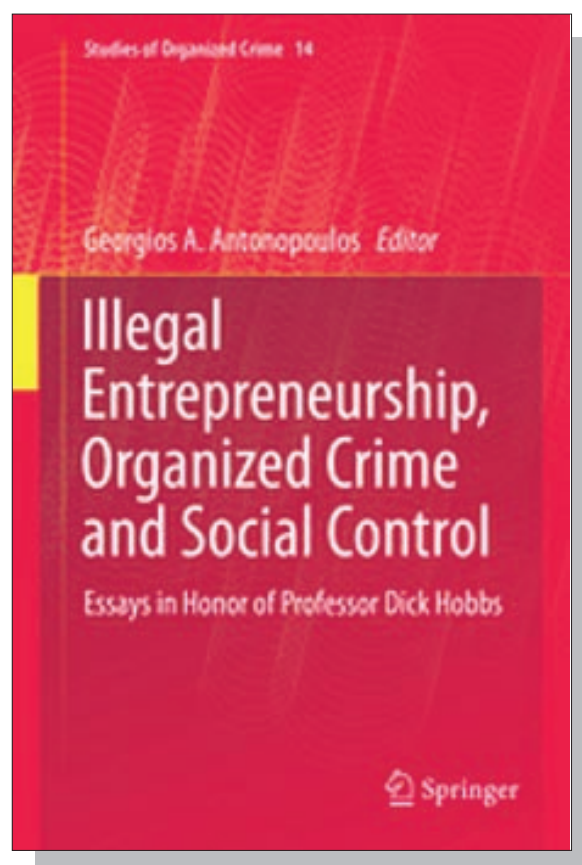
The main research findings were presented by Nadya Stoyanova, analyst at CSD's Security Program, at an international colloquium on *Multifaceted Organized Crime and Profit Crime: Criminal Markets, Money Laundering and the Ways to Cope with Them* held in Newcastle. The results were also presented at the European Parliament by Dr. Atanas Rusev and Ms. Stoyanova.

The economic and financial crisis of 2009 in the country led to a revival of **illegal and predatory lending and usury**. Pushed by financial constraints, a significant number of households and businesses turned to shadowy money lenders. Anton Kojuharov and Atanas Rusev wrote an article titled "Sharks in Sheep's Clothing: Modalities of Predatory and Illegal Lending in Bulgaria" based on new research data. It was included in this year volume of *Illegal Entrepreneurship, Organised Crime and Social Control*, published by Springer. This year's edition was dedicated to Professor Dick Hobbs' contribution to modern criminology evolution.

According to their analysis, the number of people victimized by predatory lenders is on the rise, as are incidents involving the use of coercion and violence in debt recovery. Such a trend is not surprising given the fact that a large part of usury and predatory lending in Bulgaria is performed by organized crime groups involved in these illegal and highly lucrative practices. An

interesting phenomenon emerges as highly flexible criminal groups profit from poor regulation by positioning themselves as legal businesses under the cover of non-banking financial organisations. This tactics gives them the opportunity to follow their predatory way of lending, in addition to widening their local and regional scope of activities. The article analyses the usury and predatory lending practices in Bulgaria and proposes a new classification of several underlying activities, in addition to a typology of the usurers' clients.

In 2016, CSD experts took part in a number of international seminars and conferences on organized crime and related topics.



On 24 November 2016 Dr. Atanas Rusev took part in a Europol seminar in The Hague on *Identifying the Trends in Serious and Organized Crime* related to

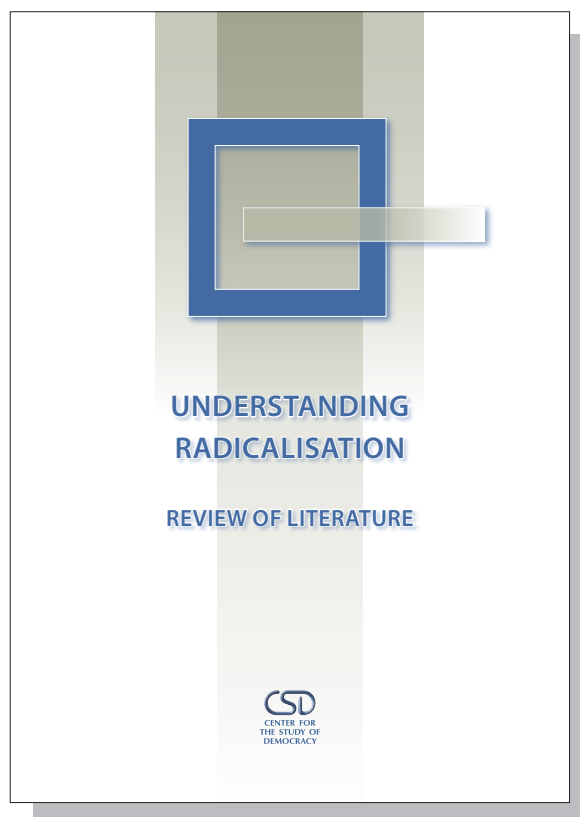
the SOCTA 2016 report. The experts discussed future threats and organized crime trends in Europe. Dr. Rusev took part in two working groups focusing on “The impact of migration crisis” and “The importance of geographical factors for organized crime activities”.

Dr. Rusev presented his paper “Dealing with and disposal of secured and seized proceeds of crime” at a seminar on *Financial Investigations and Secured Assets Governance* held in Bratislava. The event was organized by Slovakia’s Ministry of Interior in the framework of Europol’s EMPACT initiative with a focus on investigating VAT fraud and improving cooperation between law enforcement services.

II. Countering radicalization and terrorist threats

The radicalisation phenomenon

In 2016, CSD published the report *Understanding Radicalisation: A Review of Literature* compiled by experts of the Security Program in cooperation with the Sociological Program. The phenomena of radicalisation today are speedily developing and changing, with their extreme forms manifested globally. The destructive dimensions of (violent) Islamist or right-wing radicalisation have become dramatically visible in Europe, posing serious challenges to European societies. This literature review presents key academic conceptualisations and debates on the phenomena of radicalisation that might lead to violence. It deals with three different forms of radicalisation: Islamist, right-wing, and left-wing radicalisation. In addition, an overview is provided of current academic debates regarding the role of the Internet in radicalisation processes. The review is intended to help social scientists who



are entering the field of radicalisation studies navigate through the complexity of underlying processes and factors that lead different individuals or groups to adopt radical ideas and commit acts of violence. The review is particularly relevant for the countries of Central and Eastern Europe where radicalisation remains understudied, although most countries in the region share histories of extremism and political radicalism.

Approaches and instruments for monitoring of radicalization risks in Southeast and Central Europe

Countering radicalisation that turns to terrorism has become an issue of particular concern for many European societies. In recent years, both Islamist and right-wing radicalization have surged, leading to violent attacks on European soil. In this context, the early detection of radicalization processes and the understanding of the root causes and fac-

Classification of theories of social movements and terrorism

No specific theoretical foundation	Studies based on theoretical paradigm		Explicit assumption regarding human nature (rational choice models)
	No explicit behavioural assumption regarding human nature		
Historical case studies Journalistic studies Case studies by security experts and former intelligence officers	Psychological theories <ul style="list-style-type: none"> • Psychopathology • Social psychology • Social learning • Identity theory • Narcissistic personality • Paranoia hypothesis Social psychological theories <ul style="list-style-type: none"> • Social learning • Frustration-aggression hypothesis Cognitive theories	Marxist theories Western sociological theories <ul style="list-style-type: none"> • Modernisation • Structural imbalance • Relative deprivation • Resource mobilisation 	Rational actor hypothesis Game theoretic models

Source: Understanding Radicalisation. Review of Literature.

tors that trigger them becomes ever more important as a preventive factor.

In 2016, the Security Program in close cooperation with the Sociological Program continued their research aimed at developing practical instruments for identifying, surveillance and analysis of radicalization and extremism linked risks and trends. Two instruments were designed:

1. approaches for detecting early signs of radicalization and a framework of indicators for risk identification;

2. a methodical guide for assessing extremist phenomena.

The results of the application of these instruments were discussed at an [expert workshop on the validation of radicalisation monitoring tools](#) in Southeast and Central Europe, held on 28 June 2016 at the Center for the Study of Democracy. It was attended by experts from ELIAMEP Greece and CUNI-SBP and Charles University from the Czech Republic.

In her opening speech, Dr. Mila Mancheva, Senior Analyst at the Sociologi-

Levels of analysis of causes for radicalisation that can lead to terrorism

1. *Micro-level*, i.e. the individual level, involving e.g. identity problems, failed integration, feelings of alienation, marginalisation, discrimination, relative deprivation, humiliation (direct or by proxy), stigmatisation and rejection, often combined with moral outrage and feelings of (vicarious) revenge;
2. *Meso-level*, i.e. the wider radical milieu – the supportive or even complicit social surround – which serves as a rallying point and is the ‘missing link’ with the terrorists’ broader constituency or reference group that is aggrieved and suffering injustices which, in turn, can radicalise parts of a youth cohort and lead to the formation of terrorist organisations;
3. *Macro-level*, i.e. role of government and society at home and abroad, the radicalisation of public opinion and party politics, tense majority-minority relationships, especially when it comes to foreign diasporas, and the role of lacking socio-economic opportunities for whole sectors of society which leads to mobilisation and radicalisation of the discontented, some of which might take the form of terrorism.

Source: Understanding Radicalisation. Review of Literature.

cal Program of CSD, emphasized on the importance of discussing the results from validation studies of proposed monitoring instruments and risk indicators, conducted in Bulgaria, the Czech Republic and Greece in order to finalise a comprehensive Radicalisation Monitoring Tool targeted at right-wing and Islamist radicalisation.

Mr. Libor Stejskal of CUNI, Charles University, and Mr. Dimitis Scleparis of ELIAMEP presented the results from validating the Situation Analysis indicators on right-wing radicalisation that were conducted respectively in the Czech Republic and in Greece. Some gaps have been identified in the annual situation assessment reports on extremism produced by the authorities in the Czech Republic. These include the lack of coherence between police and judicial data on extremist crimes and registration time delays leading to the appearance in statistics of one and the same crime with

a different date, and the need for more rigorous regional analysis of the crime data collected by authorities. In the presentation of the key findings of a pilot situation assessment in Greece based on data collected by Greek authorities it was emphasized, that most hate crimes in Greece are registered in Athens and Thessaloniki and the primary bias motives are based on national or ethnic origin, or on skin colour. In addition, more than half of hate crime cases are cleared by the Hellenic Police and most attacks are conducted by groups, and not by a single perpetrator.

Rositsa Dzhekova, Coordinator of the Security Program at CSD and Pavel Mička from CUNI-SBP shared findings from testing risk assessment indicators among first-line officers in the field of Islamist radicalisation. In Bulgaria, there is limited understanding of radicalisation-related risk factors among first-line police officers with the issue being con-

sidered a sensitive topic falling within the domain of intelligence services. In light of this, Ms Dzhekova suggested that commitment at the central level (the Ministry of Interior) is necessary before police officers could apply the risk assessment effectively.

Ms. Dzhekova also attended two events of the **Radicalisation Awareness Network (RAN)** of the European Commission. At a working discussion in Venice on 25-27 October 2016 experts were acquainted with the approaches of the Italian penitentiary and probation services dedicated to the social reintegration of prisoners as an effective method for countering radicalization. On 23-24 December 2016 Ms. Dzhekova took part in a working visit to RAN in Paris, where she met with representative of central and local authorities, and NGOs involved in applying measures for preventing and countering radicalization. Participants

from 10 countries were briefed about the range of the government's policies and measures for improving the identification, surveillance and prevention of risks from radicalization leading to violence.

Rositsa Dzhekova also joined the annual meeting of the **European Expert Network on Terrorism Issues** held in Milan on 2-4 November 2016, which was organised by the Federal Criminal Police Service of Germany and by Università Cattolica del Sacro Cuore of Milan. She took an active part in the discussions and thematic panels of the conference on the links between migration processes and radicalization.

Countering the Islamic State

The current situation in Syria and Iraq and the emergence of the so-called Islamic State have created new security



Round table: What Comes After the Islamic State: Implications for Europe. From left to right: Brian Jenkins, Senior Adviser to the President of the RAND Corporation, and Dr. Ognian Shentov, Chairman, Center for the Study of Democracy

threats in Europe. As the international military campaign against Islamic State has been intensifying, its eventual defeat poses several challenges to Europe's security. The latest developments in the conflict were the subject of a round table discussion entitled *What Comes After the Islamic State: Implications for Europe*. It was held at the Center for the Study of Democracy on 18 November 2016, with the participation of Brian Jenkins, Senior Adviser to the President of the RAND Corporation.

The discussion focused on the current general situation in the Middle East and the military campaign against Islamic State, along with possible scenarios for its defeat, as well as its aftermath and implications for Europe. Following his comments on the current military campaign in the Iraqi city of Mosul and the Syrian city of Aleppo, Mr. Jenkins presented the main risks of the return of "foreign fighters" to their European

countries. One of the persisting gaps that undermine the fight against terrorism in Europe, according to Mr. Jenkins, is the lack of adequate sharing of information between intelligence services and the existing differences in legislation across EU member states.

Brian Jenkins stressed the differences between the radicalization itinerary of Al Qaida adepts and that of the new generation of Islamic State fighters, which makes it almost impossible to develop the profile of the typical terrorist, and, respectively, the identification of risk indicators that precede violent acts.

III. Improving private security governance

Research on the Bulgarian private security sector continued, as part of a larger study of the sector in Southeast Europe. On 12-13 April 2016, a workshop was or-



Participants in the workshop on private security companies, 12-13 April 2016

ganized by the Security Program with the participation of experts from the Belgrade Center for Security Policy (BCSP), the Kosovar Center for Security Studies (KCSS), the Institute for Democracy and Mediation (IDM), and the Geneva Center for the Democratic Control of the Armed Forces (DCAF). The experts discussed the role of the private security sector in the protection and guarding of critical and strategic infrastructure. The involvement of private security companies in providing security services in rural and remote regions was also explored, particularly in light of developments on the Bulgarian security environment.

CSD researchers took part in a roundtable held in Belgrade on 7–9 December 2016. Participants from the private security sector in Kosovo, Serbia and Sweden, as well as academics and representatives from law enforcement agencies in Albania and Bulgaria discussed good practices in delivering effective and efficient oversight of the private security industry in Europe.

IV. State capture and the media

Political corruption flourishes where public demand for good governance is weak. This usually happens when the main feedback vehicle – mass media – is captured by business or political elites. Media capture can take either direct or more subtle forms. In the case of Bulgaria, the most substantial deficiencies of the media model are lack of transparency and concentration of ownership, monopoly position on the distribution market and poorly developed self-regulation mechanisms. These deficiencies impede the counteraction of influence peddling and allow hidden control over media. Even established violations of statutory requirements have remained unpunished. At the same time, the Bul-

garian legislation does not respond to the new challenges posed by online media and their potential for manipulation, but rather by their owners' business interests and above all by anonymous equity.

The political instrumentalisation of media in Bulgaria and Southeast Europe is visible in a number of ways. This was the key conclusion reached at the conference *Media and Political Influences*, co-organised by the Center for the Study of Democracy and Bulgaria's Chairmanship of the Committee of Ministers of the Council of Europe on 16 May 2016. The event was attended by the Ambassadors of the Kingdom of Netherlands and of the Czech Republic to Bulgaria, representatives of the Council of Europe and national state institutions, NGOs, as well as researchers and journalists.

Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, emphasized that media, including social media, are used increasingly in a very cold and professional way to influence political process and there is a need for deeper understanding of these influences.

Ambassador Tom van Oorschot (the Netherlands was holding in the first half of 2016 the Presidency of the Council of the EU) shared a concern about the global dimensions of media dependence from external forces, and highlighted the principle of free and impartial journalism as a cornerstone of healthy democracies not just in Europe, but across the world.

Mr. Tihomir Bezlov, Senior Fellow at the Center for the Study of Democracy, presented an overview of the recent state of the media environment in Bulgaria in terms of ownership, revenue streams, and changes in the media market. Due to the shrinking advertis-

ing budgets (aggravated to a large extent by the global financial crisis), media are subject to increased vulnerability to political and business pressure. One of the major threats for media independence are the “political investments” in print and TV, as well as the PR contracts with government agencies and with large business groups. Mr. Bezlov emphasized that tight control of media content in private media leaves very limited space for critical coverage and investigative journalism. Grounds for optimism can be seen in the growing importance of social networks as an alternative media. They present a unique chance for independent journalists to create media content and to get paid (through sharing a portion of the revenues generated by social networks), thus bypassing the traditional media outlets.

Dr. Malgorzata Pek, Programme Officer at the Council of Europe’s Media and In-

ternet Division, talked about the Council of Europe standards with regards to ensuring a pluralist media landscape, diversity of media content, inclusiveness in public service media, as well as media coverage of election campaigns. Drawing upon different policies and the relevant jurisprudence of the European Court of Human Rights, she underscored the need to further develop specific guidelines and standard-setting proposals on the transparency of media ownership and internal editorial policies. Dr. Lyubomir Kutin, Senior Analyst at the Center for the Study of Democracy, presented the findings of two case studies on the (in)dependence of Bulgarian regional media and the coverage of local elections. The lack of independent local media is a trend with devastating implications for the regions of Bulgaria. The absence of critical/high-quality journalism affects not only the local public institutions; regional economic activity is also hin-



Participants in the conference Media and Political Influences

dered by the void of independent media voices. The regional media do not disclose the sources of their income and public funding, especially during election periods. However, content analysis of the elections coverage indicates bias in favour of incumbent mayors and lack of critical or analytical publications. The role of regional media has been downgraded to a channel where various political groups can publish their press releases. Prof. Katharine Sarikakis, Professor of Media Industries, Media Organisation and Media Governance at the Department of Communication at the University of Vienna, highlighted the role of the state in contributing to the shrinking of public communicative spaces and the erosion of confidence in media institutions in general, but especially when it comes to public broadcasting. By (re-)exerting control over public service media in Europe, the state has posed one of the key challenges to democratic development, as it has been involved in different strategies for political engineering and interference with the functioning of public media. The risk to public service media is not to be underestimated, given that it sets the standards for employment, impartial debate, the flourishing of diversity and informed citizenry. Among the key threats for the autonomy and survival of effective public media, Professor Sarikakis listed the growing public budgets deficits in many countries across Europe (leading to shrinking financial contributions), as well as the intense administrative control over such types of public service journalism. Mr Christian Spahr, Director of Konrad Adenauer Foundation's Media Program for Southeast Europe, provided an overview of the media environment in the region. Media in the region has become increasingly consolidated with fewer companies owned by a smaller group of people, most commonly members of the political elite or

individual oligarchs. One of the intangible effects of the economic insecurity of media in Bulgaria and SEE has been the adoption of a form of self-censorship by journalists and editors. Indirect political control over the media is established inter alia through public advertising. The lack of solidarity within the journalist profession makes media particularly vulnerable to external pressure.

A number of recommendations and specific approaches for change in the media environment were suggested: greater accountability of media funds, better transparency of ownership, enhanced public debate, and further media literacy education among citizens and professionals.

V. Border security

Evaluation of the EU External Borders Fund

In 2016, a team of researchers from the Security Program completed an evaluation of the External Borders Fund (EBF), commissioned by the EC. In the framework of the evaluation, the team visited the border services of 8 countries participating in the EBF (Bulgaria, Greece, Norway, Poland, Hungary, Finland, the Czech Republic and Switzerland). An in-depth analysis of projects financed by the fund in the period 2011 – 2015 was carried out. The evaluation criteria were relevance and utility, effectiveness, efficiency, sustainability of results, coherence and complementarity with other EU financial instruments, and EU added value in the control of external borders. CSD's involvement in the evaluation further reestablished its reputation as a leading partner of DG Migration and Home Affairs of the European Commission in studies related to EU border security.



Visit to the Finish Border Guard

The future of border management in the EU

In late 2016, the Security Program launched a study of future developments in the area of migration and border management in the period after 2020. The study will develop scenarios to be used by the European Commission in the setting up of policy and funding priorities for the Multiannual Financial Framework after 2020. The scenarios will help the EC in defining a mid- and long-term strategy based on currently identified trends and uncertainties, including migration pressure, political

uncertainties within the EU and possible strategic shocks in third countries, in particular neighbouring countries and countries of origin of massive migration flows. The complex interplay of intentions, capacities and contradictions will be reflected in the set of alternative scenarios, taking into account the unprecedented clash of internal and external factors (such as the exit of the UK, the global refugee crisis, the rise of far-right, populist parties across Europe, and the continued terrorist threats) that shaped global politics in 2016 and will continue to define the future of the EU in the coming years.

Part Two
Administration and Management

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Institutional Development

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

In 2016, CSD continued its efforts to optimize its internal administrative and financial reporting systems. The new remuneration procedures, introduced in 2014, were further streamlined in line with the requirements from various financing institutions, and the need to comply with national labour regulations.

In 2016, CSD employed a staff of thirty-one; of whom twenty-five 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:

- annual audit reports published since 1992;
- audits of individual projects;
- *CSD Annual Reports* published since 1994;
- regular updates about CSD's activities on its website;
- press-releases about on-going projects and their results;
- publications of a wide range of analyses and reports.

In 2015 and 2016 CSD was ranked among the top ten highly transparent non-profit organisations in the EU, according to the ranking of [Transparify](#). CSD was awarded five stars as an organization publishing on its website the names of its donors and information on the amounts given by each donor. [Transparify](#), a non-profit initiative, provides the first-ever global rating of the financial transparency of 200 major think tanks in 47 countries.

The application of good management practices has been critical to the successful work of CSD. In 2016, the Center continued its efforts to diversify its sources of funding in addition to traditional EU financial instruments, such as *Horizon 2020*, the European Social Fund, and the financial instruments in the area of justice and home affairs. Some of CSD's activities were funded through the operational programs administered by the Bulgarian government, as well as the Open Society Institute and the U.S. Department of State. Apart from the awarded grants, CSD took part in tenders through its subsidiaries Vitosha Research and Project One.

In 2016, CSD proved its reputation as a reliable partner and coordinator of EU-wide projects encompassing research in the legal, security and social policy areas. In partnership with leading European think tanks and academic institutions, CSD took part in the European debate on the assessment and development of policies related to the fight against organised crime, the integration of victims of trafficking and other vulnerable groups, public confidence in justice, countering radicalization and cybercrime.

Ranking of the Think Tanks in the European Union, excluding the UK, Transparify, 2016

Organization	Country	Trend	Score		
Bruegel	Belgium		*****	Highly transparent	
International Crisis Group	Belgium	+1	*****		
Transparency International EU	Belgium	new	*****		
Center for the Study of Democracy	Bulgaria		*****		
Stiftung Wissenschaft und Politik	Germany		*****		
Eötvös Károly Institute	Hungary	+4	*****		
European Centre for Devp & Policy Managmnt (ECDPM)	Netherlands		*****		
Norwegian Institute for International Affairs	Norway		*****		
Stockholm Environment Institute	Sweden		*****		
Stockholm International Peace Research Institute	Sweden		*****		
Policy Association for an Open Society (PASOS)	Czech	-1	****	Broadly transparent	
German Council on Foreign Relations (DGAP)	Germany		****		
Centre for European Policy Studies	Belgium		***		
Institut für Weltwirtschaft	Germany	+2	***		
CASE	Poland		***		
FRIDE	Spain		***		
Centre for Liberal Strategies	Bulgaria		**		
Institute for Market Economics	Bulgaria		**		
DIW Berlin – Deutsches Institut für Wirtschaftsforschung	Germany		**		
European Stability Initiative	Germany		**		
German Development Institute (DIE)	Germany	-1	**		
Budapest Institute for Policy Analysis	Hungary		**		
Political Capital	Hungary	+2	**		
Basel Institute on Governance	Switzerland		**		
World Economic Forum	Switzerland		**		
Hayek Institute	Austria	-2	*		Highly opaque
Clingendael	Netherlands		*		

Internship program

The Center for the Study of Democracy aims to provide internship opportunities for outstanding students from various universities. In 2016, the Center hosted 26 interns from 12 different countries. In addition to Bulgarian students and recent graduates who had been enrolled by an independent application via the CSD website, the Center accommodated interns from Canada, the Czech Republic, Cyprus, Georgia, Germany, Italy, the Republic of Macedonia, Tajikistan, the UK, and the USA. CSD also hosted a PhD researcher from Italy working on illicit trafficking of cultural goods.

The Center has a robust, well-defined, standardized policy for mentoring newly hired interns, which frequently leads to extending offers for permanent positions as researchers and experts at CSD or other institutions, to offers of admission to elite graduate schools, or to funding schemes for additional employment and/or education. Interns, who are employed for a period of up to six months, undergo a careful two-stage selection and are provided with complete information to facilitate their adaptation to the receiving country and the organization's specificities. In all cases, when interns are hired, CSD uses standardized templates and procedures for developing intern action plans as well as mentorship plans to guide the intern's supervisor(s), while clearly identifying the expected timeline(s) and performance indicators that would determine the successful completion of the internship. The action and mentorship plans provide initial assessment of the strengths and opportunities of the internship for both the intern and the organization.

CSD always attempts to match interns' professional aspirations to their assignments. Having developed over the past two decades into a major think tank with expertise in a number of diverse fields, CSD is able to attract diverse talent. As a minimum, the Center guarantees interns the ability to produce policy briefs (with supervision and feedback where needed) or policy notes on a topic relevant to the intern's educational background and/or future professional goals.

In 2016, all CSD programs actively engaged interns in their core activities such as desk research, data collection, literature reviews, and drafting of reports on policy events. This helped them gain practical skills and in-depth knowledge in areas such as:

- anti-corruption, good governance in the energy sector, hidden economy, public procurement, competitiveness and innovation;
- domestic and gender based violence, integration of migrants and social inclusion of vulnerable groups, counter trafficking in human beings, prevention of radicalisation leading to terrorism, monitoring of forced return operations, and rendering advice and expertise to key governmental stakeholders;
- financing of organized crime activities, countering radicalisation, assessing the effectiveness of anti-corruption policies, countering extortion and racketeering in the EU, mapping the private security sector in Bulgaria, EU external border management; mapping mobile criminality in the EU;

- legislative and institutional framework of the right to free movement and migration, reception and integration of asylum seekers, migration detention of children and adults, social orientation of migrants, the migration situation, promising practices in the area of fundamental rights, the rights of victims of cyber violence, de-institutionalization and independent living of persons with disabilities, threats and hate speech to media and internet bloggers, radicalisation in prisons, detention conditions and prisoners' rights, prevention of drug use in prisons, corruption practices and anti-corruption measures in education, legal regulation and operation of OLAF.

In 2016, interns also assisted in the preparation and conduction of face-to-

face interviews, the transcribing and processing of collected qualitative data. Notably, they were involved in the project preparation process, gaining valuable experience in developing grant and tender proposals and assisting the process with technical tasks.

As in previous years, the diversity of the educational backgrounds of the interns provided the programs' teams with a variety of perspectives on their respective fields of research. The interns, on the other hand, had the opportunity to find out about policy and program evaluation, to learn from leading researchers, policy analysts, investigative journalists, and advocacy leaders, and, depending on their interests and background, to participate in events organized by the programs and to familiarize themselves with the ongoing research activities.

"I undertook a 3-month internship at the Sociological Program of CSD. My primary responsibilities were related to conducting research and making reviews on topics such as right-wing radicalisation in European countries, migration and refugees in Bulgaria, registration system of NGOs in several member states of the EU. During the internship, I had a chance to meet people from several countries, engage in a truly intercultural dialogue, share new ideas and learn and discuss various issues. Given my future plans, this internship at CSD was particularly interesting to me and I would greatly appreciate an opportunity to work with true professionals with whom I have been working for the last three months. This will definitely help me to progress in my personal and career growth. I think this is the best position from where anyone can contribute, learn, and grow as a young professional. Carrying out an internship at CSD represents a valuable opportunity for anyone to gain experience and upgrade their skills and knowledge. Thus, I highly recommended the internship program at CSD."

Dimitri Kaulashvili, Georgia, intern at CSD's Sociological Program, November 2015 – February 2016

“I undertook a challenging and very fulfilling three-month internship with the Law Program at CSD. My main tasks were researching, making summaries and reviews on contemporary topics which were relevant to my interests. I had the opportunity to assist with research on radicalisation and terrorism, migrant integration, rights of victims of cybercrime and other very fascinating areas. I was also able to attend conferences organised by CSD, or in collaboration with the Center, where other European and international organisations took part. It was a pleasure working with people from diverse cultural and educational backgrounds who were always willing to help and give me guidance. This internship is a very good start for my future career and will be the stepping stone for my further development as a young professional, and I would definitely recommend it to anyone interested.”

Nicolina Isaia, Cyprus, intern at CSD’s Law Program,
November 2015 – March 2016

“I had a great time here. I joined the Security Program and I worked on several projects on organized crime, terrorism, and corruption in Europe. I supported the team in a project on counter-extortion racketeering in Europe. I also carried out some research on measuring the corruption and international terrorism. The team has also been useful helping me with my personal research on confiscated assets from organized crime activities. It was a pleasure interning at CSD for six months. I acquired new skills and knowledge about crime issues which my professional career will benefit from. If you are a student or a young professional, this is the right place to test your skills and preparation, you will find good mentors.”

Antonio Iafano, Italy, intern at CSD’s Security Program,
January – June 2016

“I feel extremely fortunate to have had the opportunity for an internship with the CSD. I was a part of the Economic Program, and aided with a number of projects with regards to my specialisation in anti-corruption. The team here was very supportive and communicated effectively with me in order to give me projects in-line with my research interests, which greatly contributed to my professional development here. I provided updates for data and the SELDI newsletter, as well as conducted research and provided support on topics such as anti-corruption in the education sector, corruption in the energy sector, and the impact of EU conditionality on anti-corruption in Bulgaria. The highly-connected nature of CSD to other CSOs in the region working in anti-corruption, especially through SELDI, also contributed to my wider knowledge and understanding. The knowledge and experience I gained through my work here has proven to be indispensable, as helping with such relevant and challenging projects gave me a lot of inspiration for my upcoming master’s dissertation.”

Anika Heinmaa, Canada, intern at CSD’s Economic Program,
May – August 2016

Donation of books and other publications

In 2016, CSD donated books and educational materials to the following institutions: Bourgas Free University, Ministry of Interior Academy, University of

National and World Economy, International Business School, Commission for Protection against Discrimination.

Subsidiaries of CSD: Vitoshka Research and Project One

Vitoshka Research EOOD and Project One EOOD are wholly owned by CSD and form the CSD Group. Vitoshka 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 and social 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 organisations share 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 2016, Vitoshka Research focused its activities on conducting consulting projects, building upon its expertise in quantitative analysis and social research.

Vitoshka Research and Project One EOOD are among the founding members of the Bulgarian Association for Policy Evaluation (BAPE). The mission of BAPE is to establish the evaluation of public policies as a tool for good governance in Bulgaria, to develop policy evaluation capacities, and to promote the best practices of monitoring of public policies at the local, regional, and national levels.

Project One EOOD continued its efforts to secure funding for an office building to be 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.

List of Staff

Governing Board

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

Program Board

Alexander Stoyanov, PhD, Director of Research
Andrey Nonchev, PhD, Director, Sociological Program
Maria Yordanova, PhD, Director, Law Program
Mois Faion, PhD, Senior Fellow and Financial Director
Ruslan Stefanov, Director, Economic Program
Rositsa Dzhekova, Coordinator, Security Program

Economic Program

Ruslan Stefanov, Director
Todor Galev, PhD, Senior Analyst
Daniela Mineva, Research Fellow
Martin Vladimirov, Analyst
Nadejda Gantcheva, Analyst
Stefan Karaboev, Analyst

Law Program

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

Sociological Program

Andrey Nonchev, PhD, Director
Mila Mancheva, PhD, Senior Analyst
Slavyanka Ivanova, Senior Analyst
Lilliya Dragoeva, Analyst

Security Program

Rositsa Dzhekova, Coordinator
Chavdar Chervenkov, Lieut. Gen. (ret.), Senior Fellow
Emil Tsenkov, PhD, Senior Fellow
Mois Faion, PhD, Senior Fellow
Tihomir Bezlov, Senior Fellow
Atanas Rusev, PhD, Senior Analyst
Anton Kojouharov, Analyst
Nadya Stoynova, Analyst

Administration

Mariana Yankova, Administrative Secretary

Milena Yordanova, Executive Assistant

Galina Sapundjieva, Program Assistant

Dimitar Stamenov, System Administrator

Financial Department

Milena Momchilova-Boyadzhieva, Financial Director

Ivan Pekov, Financial Manager

Petar Lozanov, Financial Officer

Technical Support

Boyko Tassev

Part Three

Financial Review

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CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2016

Independent Auditor's Report

To the General Assembly
of the Center for Study of Democracy

Report on the Consolidated Financial Statements

We have audited the 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 2016 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

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 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as per these standards are further described in the Auditor's Responsibility section of our report. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (The IESBA Code) along with the ethical requirements of the Law on the Independent Financial Audit (LIFA), applicable to our audit of consolidated financial statements in Bulgaria. We have also complied with our other ethical responsibilities as per the requirements of LIFA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information, different from the consolidated financial statements and the auditor's report

Management is responsible for other information. Other information comprises report on the activity prepared by management in accordance with Chapter Seven of the Law on Accountancy, but excludes the consolidated financial statements and our auditor's report.

Our opinion regarding consolidated financial statements does not comprise this other information and we do not express any form of conclusion about its reliability, unless it is explicitly stated in our report and to the extent to which it is stated.

In auditing consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is substantially inconsistent with consolidated financial statements or with our knowledge obtained during the audit, or in another way appears to contain material misstatement. If, based on the work we have performed, we conclude there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this respect.

Supplementary reporting requirements laid down in the Law on Accountancy

In addition to our responsibilities and reporting in compliance with ISA, in reference to the report on the activity we have followed the procedures supplementing ISA requirements as per the Instructions of the professional organisation of certified public accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA) – issued on 29.11.2016 and endorsed by its Managing Board on 29.11.2016. These are procedures on verification whether such other information is present and on examination of its form and content, designed to assist us in forming an opinion on whether this other information contains the disclosures and reports laid down in Chapter Seven of the Law on Accountancy.

Opinion in reference to Art. 37, Para. 6 of the Law on Accountancy

On the grounds of the procedures implemented, our opinion is that:

- a) The information included in the report on the activity for the financial year for which consolidated financial statements were prepared corresponds to the consolidated financial statements.
- b) The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.
- c) The report on payment to governments for the financial year for which consolidated financial statements was prepared, was presented and prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

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.

During the preparation of consolidated financial statements management is responsible for evaluating the ability of the Group to continue operation as a going concern, disclosing, when applicable, issues related to the assumption about going concern and using the accounting basis on the grounds of the assumption about going concern, unless management has the intention to liquidate the Group or to suspend its activity, or has no other alternative but to take such action.

Auditor's Responsibility

We aim to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's

report containing our auditor's opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit performed in accordance with ISA shall in all cases reveal material misstatement if such misstatement is present. Misstatements may arise as a result of fraud or error and are considered material if it would be reasonable to expect that, independently or in aggregate, they could impact the economic decisions of consumers taken on the basis of these financial statements.

As part of the audit complying with IAS, we use professional judgment and keep professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures in response to these risks and we obtain sufficient and appropriate audit evidence, so as to provide basis for our opinion. The risk of not revealing material misstatement which is due to fraud, is higher than the risk of not revealing material misstatement which is due to error, as fraud could vary from secret arrangement, through forgery, intentional omissions, and statements aiming to deceive the auditor, to internal control neglect or circumvention;
- consider internal control relevant to the audit 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related statements made by management;
- make a conclusion about the appropriateness of accounting basis used by management on the grounds of the assumption for a going concern and the audit evidence obtained about whether material uncertainty is present concerning events or circumstances which could cause significant doubts about the ability of the Group to continue operation as a going concern. In case of finding such material uncertainty, we are obliged to draw attention in our auditor's report to the disclosures in the consolidated financial statements relevant to that uncertainty, or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, due to future events or circumstances the Group could suspend its operation as a going concern.
- evaluate the overall presentation, structure and content of consolidated financial statements, including disclosures, and whether consolidated financial statements present the fundamental transactions and events in a reliable manner.



Stoyan Donev
Registered Auditor
31 July 2017
Sofia

Center for the Study of Democracy (The Group)
Consolidated Statement of Financial Position, 31 December 2016

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2016	31 December 2015
Assets			
Property, plant and equipment	5	2,112	2,155
Intangible assets	6	385	536
Investment property	7	362	365
Total non-current assets		2,859	3,056
Short-term loan	8	116	100
Trade and other receivables	8	567	481
Cash and cash equivalents	9	669	586
Deferred expenses		452	296
Total current assets		1,804	1,463
Total assets		4,663	4,519
Equity		2,733	2,704
Liabilities			
Long term liabilities	10	200	200
Payables to partners and suppliers	10	429	370
Deferred financing	12	1,301	1,245
Total current liabilities		1,730	1,615
Total liabilities		1,930	1,815
Total equity and liabilities		4,663	4,519

These financial statements set out on pages 4-21 were approved by the Governing Board on 31 July 2017. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
31 July 2017




Initialled for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
31 July 2017



0509 Стоян Донеv
Регистриран одитор

Center for the Study of Democracy (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2016

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2016	31 December 2015
Revenues from grants financing	13	1,937	1,901
Cost of Sales	14	(1,818)	(1,891)
Gross Profit		119	10
Other operating income		674	805
Administrative expenses		(709)	(805)
Impairment losses		0	0
Revenue from operating activities		84	10
Financial income		2	42
Financial expenses		(27)	(31)
Net financing costs	15	(25)	11
Profit before income tax		59	21
Income tax expense	16	(7)	(10)
Net profit for the period		52	11
Other comprehensive income		-	-
Total comprehensive income		52	11

These financial statements set out on pages 4-21 were approved by the Governing Board on 31 July 2017. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
31 July 2017




Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
31 July 2017



Center for the Study of Democracy (The Group)
Consolidated Cash Flow Statement, 31 December 2016

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2016	31 December 2015
Cash generated from operations			
Profit before income tax		52	11
Adjustments for:			
Depreciation		94	95
Changes in working capital:			
Trade and other receivables		(87)	(58)
Trade and other payables		115	(1,745)
Net cash from operating activities		<u>174</u>	<u>(1,697)</u>
Income tax paid		(7)	-
Net cash generated from operating activities		<u>167</u>	<u>(1,697)</u>
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(62)	(25)
Net cash used in investing activities		<u>(62)</u>	<u>(25)</u>
Cash flows from financing activities			
Loans received			
Interest and commissions paid		(22)	(32)
Net cash used in financing activities		<u>(22)</u>	<u>(32)</u>
Net increase/(decrease) in cash and cash equivalents		83	(1,754)
Cash and cash equivalents at the beginning of the year		<u>586</u>	<u>2,340</u>
Cash and cash equivalents at the end of the year	16	<u><u>669</u></u>	<u><u>586</u></u>

These consolidated statements of changes in e cash flow statement set out on pages 4-21 were approved by the Governing Board on 31 July 2017. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
31 July 2017




Initialed for identification
purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
31 July 2017



0509 Стоян
Донев
Регистриран одитор

Center for the Study of Democracy (The Group)
Consolidated Statement of Changes in Equity, 31 December 2016

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2015		2,695
Net profit for the year		11
Other changes		(2)
Balance as of 31 December 2015		2,704
Balance as of 1 January 2016		2,704
Net profit for the year		52
Other changes		(23)
Balance as of 31 December 2016		2,733

These consolidated statements of changes in equity set out on pages 4-21 were approved by the Governing Board on 31 July 2017. They are signed on behalf of the Governing Board by:




Vladimir Yordanov
Executive Director
31 July 2017

Initialled for identification purposes in reference to the audit report:



Stoyan Donev
Registered Auditor
31 July 2017



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 2016 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 a European interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organisation fostering the reform process in Bulgaria and Europe through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process, especially in the area of justice and home affairs;
- 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.

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 2016 the Group has 31 employees.

The financial statements were approved by the Governing Board on 31 July 2017.

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 the 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 intragroup 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 2016 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 commences 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	100 years
Machinery and equipment	3.33 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 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 Group 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 2016.

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 recourses 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. In 2015 and 2016, the Bulgarian economy experienced a moderate recovery in economic growth with easing of consumer and business credit. At the same time, due to political uncertainty in the country the level of commitment and absorption of EU funds, a critical public financial contribution, has declined.

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 impact on the Group during 2016. 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.

As of 31 December 2015	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	370	-	200	-
As of 31 December 2016	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	429	-	200	-

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 judgments 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.

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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

Cost	As at 1 January 2016	Additions	Disposals	As at 31 December 2016
Land	529	-	-	529
Buildings	606	-	-	606
Computers	262	8	-	270
Vehicles	243	-	-	243
Fixtures & Fittings	109	2	-	111
Other assets	12	-	-	12
Assets under construction	911	-	-	911
Total	2,672	10	-	2,682

Depreciation	As at 1 January 2016	Additions	Disposals	As at 31 December 2016
Land	-	-	-	-
Buildings	29	-	-	29
Computers	175	42	-	217
Vehicles	216	7	-	223
Fixtures & Fittings	92	3	-	95
Other assets	5	-	-	5
Assets under construction	-	-	-	-
Total	517	52	-	569

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Carrying amount	As at 1 January 2016	Additions	Disposals	As at 31 December 2016
Land	529	-	-	529
Buildings	577	-	-	577
Computers	87	-	34	53
Vehicles	27	-	7	20
Fixtures & Fittings	17	-	1	16
Other assets	7	-	-	7
Assets under construction	911	-	-	911
Total	2,155	-	42	2,113

6. Intangible assets

Cost	As at 1 January 2016	Additions	Disposals	As at 31 December 2016
Software	98	-	-	98
Others	683	4	-	687
Total	781	4	-	785

Depreciation	As of 1 January 2016	Additions	Disposals	As of 31 December 2016
Software	91	1	-	92
Others	154	154	-	308
Total	245	155	-	400

Carrying amount	As at 1 January 2016	Additions	Disposals	As at 31 December 2016
Software	7	(1)	-	6
Others	529	(150)	-	379
Total	536	(151)	-	385

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7. Investment property

	2016	2015
As at 1 January		
Carrying amount at the beginning of the period	365	365
Depreciation charge	<u>(3)</u>	<u>0</u>
Carrying amount at the end of the period	<u>362</u>	<u>365</u>
As at 31 December		
Cost	508	508
Accumulated depreciation	<u>(146)</u>	<u>(143)</u>
Carrying amount	<u>362</u>	<u>365</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

	As at 31 December	
	2016	2015
Short-term loan	116	100
Trade receivables	<u>520</u>	<u>409</u>
Trade receivables, net	636	509
Prepaid corporate tax	-	23
VAT Refund	-	10
Other	<u>47</u>	<u>39</u>
	<u>683</u>	<u>581</u>

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

9. Cash and cash equivalents

	As at 31 December	
	2016	2015
Cash at hand	23	5
Cash in bank current accounts	<u>646</u>	<u>581</u>
	<u>669</u>	<u>586</u>

10. Trade and other payables

	As at 31 December	
	2016	2015
Long-term liabilities		
Long-term loans	<u>200</u>	<u>200</u>
	As at 31 December	
	2016	2015
Short-term liabilities		
Payables to partners and suppliers	225	235
Salaries and social securities payables	49	54
Tax	1	-
Corporate tax payables	-	-
Other	<u>154</u>	<u>81</u>
	<u>429</u>	<u>370</u>

Loans liabilities represent a loan granted in 2009 by IR Communication EOOD to Project 1 EOOD. According to the loan contract the interest rate is 3.5 %.

11. Deferred financing

	As at 31 December	
	2016	2015
EC/Central Finance and Contracts Unit (CFCU), Turkey – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region	17	
The European Climate Foundation	21	
EC – Countering Radicalisation in Southeast and Central Europe through Development of (Counter-) Radicalisation Monitoring Tool	157	
EC – Developing Directive-Compatible Practices for the Identification, Assessment and Referral of Victims	5	
EC – Enabling the Energy Union through Understanding the Drivers of Individual and Collective Energy Choices in Europe	345	
EC – The Reality of Free Movement for Young European Citizens Migrating in Times of Crisis	10	5
EC – The Private Corruption Barometer – Drafting and Piloting a Model for Comparative Business Victimisation Survey on Private Corruption in the EU	138	

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	As at 31 December	
	2016	2015
EC – Towards a EU Data Management System for Seized Assets	202	
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-Line Practitioners and Professionals	31	
EC – Improving and Sharing Knowledge on the Internet Role in the Human Trafficking Process	123	
Foundation Open Society Institute (FOSI) Budapest – State Capture Risks in Europe: Monitoring and Policy Options	75	
Ministry of Interior, Bulgaria – National Study on Domestic and Gender Based Violence and Elaboration of Victims Support Model	34	
UNODC/Transparency International – Anti-Corruption South-Eastern Europe Regional Platform	9	
EC – Countering Extortion and Racketeering in EU		204
EC – Anticorruption Policies Revisited. Global Trends and European Responses to the Challenge of Corruption		28
EC – Augmenting Demand for Anti-Corruption and Organised Crime		34
EC – Building a Platform for Enhanced Societal Research Related to Nuclear Energy in Central and Eastern Europe		6
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising		81
EC – Civil Society Organisations as Guarantors for the Rights of Vulnerable Groups		11
EC – Countering New Forms of Roma Children Trafficking: Participatory Approach		14
EC – Law, Economy, Competition and Administration – Developing an Interdisciplinary Approach in the Fight against Public Procurement Criminality		156
EC – Monitoring Anti-Corruption in Europe: Bridging Policy Evaluation and Corruption Measurement		157
EC – Promoting Good Governance and Economic Rights through Empowering Civil Society to Monitor and Tackle the Hidden Economy in the FYR of Macedonia		52

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	As at 31 December	
	2016	2015
EC – Re-Socialisation of Offenders in the EU: Enhancing the Role of the Civil Society		4
Foundation Open Society Institute – Impact Metrix: Towards Designing a State Capture Index		1
Foundation Open Society Institute – Inclusion Revisited. Practical Solutions for Addressing “Othering” of Roma in Bulgaria		12
Open Society Institute (Budapest) – Enhancing Transparent Governance of Energy Security in Bulgaria		3
U.S. Department of State – The Wind that Blows from the East: Understanding Russian Influence in Europe		104
Other	3	71
EC – Out of the Shadows: Developing Capacities and Capabilities for Tackling Underclared Work in Bulgaria, Croatia and FYR of Macedonia	114	97
EC – Countering Extortion and Racketeering in EU		2
EC/ERDF – Implementation of an Innovative System for Electronic Polling through Mobile Devices		167
Other		10
FRANET – European Union Agency for Fundamental Rights		7
Total deferred financing related to projects	1,284	1,226
Financing for acquisition of fixed assets	17	19
Total deferred financing	1,301	1,245

12. Revenues from grants financing

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

	As at 31 December	
	2016	2015
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising	-	106
EC – Monitoring Anti-Corruption in Europe: Bridging Policy Evaluation and Corruption Measurement	-	210
EC – Countering New Forms of Roma Children Trafficking: Participatory Approach	-	104
EC – Anticorruption Policies Revisited. Global Trends and European Responses to the Challenge of Corruption	86	238
EC – Building a Platform for Enhanced Societal Research Related to Nuclear Energy in Central and Eastern Europe	45	39
EC – Countering Extortion and Racketeering in EU	233	65
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising	230	75
EC – Law, Economy, Competition and Administration – Developing an Interdisciplinary Approach in the Fight against Public Procurement Criminality	82	41
Bulgarian – Swiss Cooperation Programme – Overcoming Institutional Capacity Gaps to Counter Corruption and Organized Crime in Bulgaria	345	250
EC – New European Crimes and Trust-Based Policy	12	45
DCAF – Private Security Companies in the Western Balkans	41	43
EC – Civil Society Organisations as Guarantors for the Rights of Vulnerable Groups	21	51
U.S. Department of State – The Media as an Instrument for State Capture	60	60
Foundation Open Society Institute – Impact Metrix: Towards Designing a State Capture Index	18	26
Good Governance and Anti-Corruption Civil Society Initiative: Capacity Building for Monitoring SOE Governance in the Energy Sector	59	-

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	As at 31 December	
	2016	2015
EC – Promoting Good Governance and Economic Rights through Empowering Civil Society to Monitor and Tackle the Hidden Economy in the FYR of Macedonia	60	-
U.S. Department of State – The Wind that Blows from the East: Understanding Russian Influence in Europe	270	-
EC – Augmenting Demand for Anti-Corruption and Organised Crime	31	
Foundation Open Society Institute – Streamlining NGO Registration	53	-
Council of Ministers, Bulgaria – Punishment vs. Treatment: The Situation of Drug Users in Prison	31	-
EC – Financing of Organized Crime	-	76
EC/Central Finance and Contracts Unit, Turkey – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region	44	-
EC – Roma Integration across the Danube: Best Practices and Social Entrepreneurship Models Exchange between Romania and Bulgaria	13	-
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-Line Practitioners and Professionals	46	-
Ministry of Interior, Bulgaria – Forced Return Monitoring – Phase Two	20	-
Foundation Open Society Institute, Budapest – State Capture Risks in Europe: Monitoring and Policy Options	20	-
Other projects	117	472
Total Revenues from grants financing	1,937	1,901

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13. Cost of sales

Cost of sales for the Group includes:

	As at 31 December	
	2016	2015
Expenses for materials	15	22
Hired services	850	1,261
Depreciation and amortisation	94	95
Salaries and wages	1,083	949
Social securities	146	138
Other expenses	456	301
	<u>2,644</u>	<u>2,766</u>

14. Finance costs, net

	As at 31 December	
	2016	2015
Interest income	-	4
Interest, net	<u>-</u>	<u>4</u>
Foreign exchange income	2	38
Foreign exchange expense	(19)	(25)
Foreign exchange, net	<u>(17)</u>	<u>13</u>
Other financial expenses	(8)	(7)
Other financial, net	<u>(8)</u>	<u>(7)</u>
Finance costs, net	<u>(25)</u>	<u>(10)</u>

15. Income tax

The major components of income tax expense for the year ended 31 December 2015 and the period ended 31 December 2016 are:

	As at 31 December	
	2016	2015
Current tax	7	10
Deferred tax	-	-
Income expense	<u><u>7</u></u>	<u><u>10</u></u>

The official rate stated in Corporate Tax Law adopted for 2016 was set to 10 % (2015:10 %). 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 2016	Movement	Balance as of 31 December 2016
Property, plant and equipment	-	-	-
Trade payables	-	-	-
Net deferred tax asset/liability	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

There have been no tax checks performed in recent years.

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16. 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	
		2016	2015	2016	2015	2016	2015
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Applied Research and Communication Fund	Rental contract	45	56				
ARC Consulting EOOD	Consulting services	12	76			226	226
IR Communications	Loan agreement					200	200
Bulgarian Association for Policy Evaluation	Loan agreement	16	120	136	120		
		73	252	136	120	426	426

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:

	2016	2015
Board of Trustees and Executive Director	305	355

17. Events after the balance sheet date

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