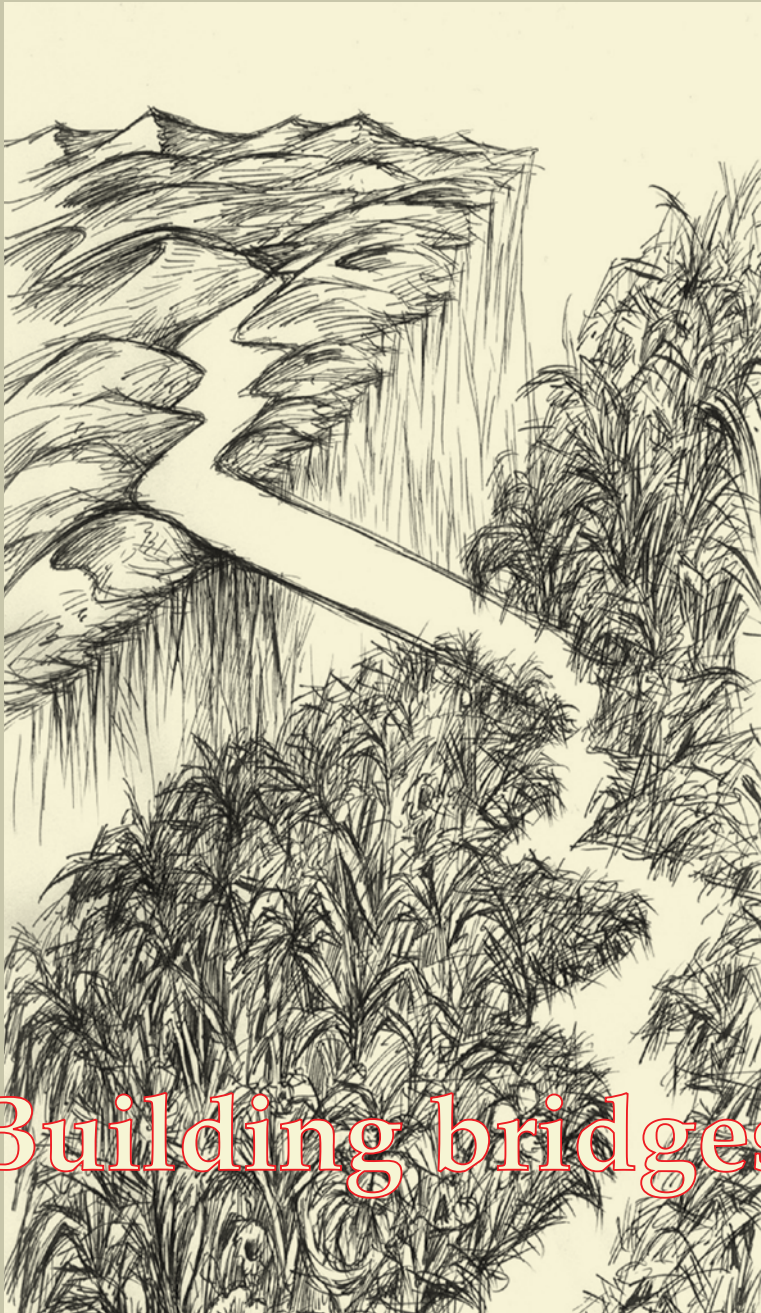


# CENTER FOR THE STUDY OF DEMOCRACY

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ANNUAL REPORT 2005



Building bridges

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**CENTER FOR THE STUDY OF DEMOCRACY  
2005 ANNUAL REPORT**



Drawing: Anri Koulev

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5 Alexander Zhendov St., 1113 Sofia, Bulgaria

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# Center for the Study of Democracy

*Building Bridges between Scholars and Policy Makers*

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

CSD objectives are:

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

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

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

The CSD has pioneered in several areas traditionally perceived as the inviolable public property, such as anti-corruption institutional reform, and national security. Our belief is that bringing a new culture of cooperation and trust in a milieu of inherited fragmentation and opacity is equally rewarding as the achievement of concrete social goals.

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# Introduction

In 2005, Bulgaria signed its Treaty of Accession to the European Union. More than a decade of ever closer integration with the Union was finally made official. The process of accession has left its mark on a wide range of issues – from constitutional reform to agriculture. Most importantly, meeting the requirements for membership has been the key guarantee for the sustainability of reforms in Bulgaria.

Nowhere has this been more relevant than in the areas where the Center for the Study of Democracy itself has made significant contribution – judicial reform, combating organized crime and corruption. The period between the signing of the Treaty and effective membership is one of intense monitoring of the implementation of Bulgaria's commitments in these fields. CSD's work in measuring corruption as a way of informing anti-corruption policy is increasingly being referenced in this process.

The **institutional reforms**, which CSD helped usher in during 2005, included the establishment of the ombudsman institution and the National Crime Prevention Commission. A few days before the signing of the Accession Treaty, on April 13, the National Assembly elected Bulgaria's first national ombudsman. Coming as a result of more than seven years of advocacy by CSD and other civil society organizations, the ombudsman is expected to contribute to the strengthening of the rule of law and empowering of citizens. Having supported – through drafting laws, advocacy and awareness – the formal establishment of the institution, CSD is following on with assistance in building its capacity to meet the expectations of this high office.

The National Crime Prevention Commission (NCPC), a public-private consultative body, came into being in 2005 as result of CSD's long standing cooperation with the Ministry of Interior and civil society partners in this area. Law enforcement has long been the exclusive method against crime; the NCPC is now expected to facilitate the development of forward looking policies targeting the causes of crime and to provide a platform for cooperation of government ministries, local authorities, business, academics and NGOs.

**Economic reforms**, with still some way to go, were another focus of CSD's work in 2005. The promotion of an **innovation and knowledge economy** as a basis for enhanced competitiveness of Bulgaria was one of the Center's specific contributions. The analyses and recommendations, promoted by CSD, highlighted the need to enhance capacity of the national economy to absorb and diffuse foreign innovation and investment in new technologies. The Center has been advocating that the integration of the foreign investors in the national innovation system be encouraged. The need for routine innovation activity in the companies and for secure ownership rights and revenues for entrepreneurs were also made a priority.

Seeking to assist the development of improved **fiscal policies**, CSD launched analyses of several taxation options and their wider implications. Some of them played an important role in policymaking. The Center's analyses of the



modus operandi of various VAT frauds has been discussed in the anticorruption commission of the National Assembly and helped to spearhead policy measures to the most vulnerable parts of the regulatory framework. Weighting the costs and benefits of the VAT account had strong influence towards its exclusion from the new draft of the law which will come into effect upon accession to the European Union. Two tax policy research papers addressed some of the hottest issues in tax policy debate: the capacity of the flat rate taxes to generate positive supply response and to encourage voluntary compliance, as well as the role of presumptive taxation in fostering the competitiveness and compliance of small business.

**New security risks and transformation issues increasingly dominate the security policy debates within NATO.** Now that Bulgaria is a member of the Alliance, CSD has been focusing its efforts on facilitating the debate on the linkages between the two. For several years now, CSD is bringing together NATO's most senior policy makers and planners, active and retired generals, ministers and experts from NATO's member states as well as partner countries, academics and researchers in an exercise that maps the future of security. The very nature of the new risks requires improved interaction between military and "softer" assets and policies. These issues are particularly relevant to developments in the Western Balkans, the Black Sea and the Caucasus regions as the enlarged NATO and EU project their presence further East. CSD has been advocating that to make this presence an effective instrument of security these institutions should factor in the economic determinants of the new security threats, and make better use of modern analytical instruments and new social technologies, including the use of civil society expertise.

Sofia, May 2006



Dr. Ognian Shentov  
CSD Chairman

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# **Part One**

## **Program Reviews**



# Law Program

In 2005 the Law Program focused its main efforts on two major areas: promoting constitutional and judicial reforms in Bulgaria in the context of the country's forthcoming accession to the European Union and strengthening the ombudsman type institutions as a human rights protection mechanism. In particular, the activities were aimed at encouraging the public and expert debate on the necessary reforms of the Bulgarian judiciary, further developing the reform of commercial registration in the country, assisting the practical establishment of the parliamentary ombudsman's office, supporting the introduction and operation of local ombudsmen and facilitating their mutual cooperation as well as their interaction with the national ombudsman.

## 2005 Highlights

- Contributing to the constitutional and judicial reform in Bulgaria continued to be a priority in CSD activities in 2005. The Law Program organized a number of events with international participation and issued a series of publications to discuss the main problems of the necessary reforms related to the judiciary in the context of Bulgaria's EU accession.
- The Law Program activities aimed at introducing of a modern electronic system of official registers continued in 2005 by active assistance in elaboration of the governmental Strategy for Establishing a Central Electronic Register of Legal Persons and an Electronic Registries Center of the Republic of Bulgaria and the Draft Law on Commercial Register. Both documents were presented at public events, organized by CSD.
- CSD experts continued their work for introducing the national ombudsman institution: after the election of the first Bulgarian ombudsman on April 13, 2005, they contributed to the practical establishment of the institution. Upon request by the ombudsman, they drafted the Rules on the Organization and Activities of the institution. After signing a Partnership Statement between CSD and the ombudsman, the Law Program experts also elaborated the technical project for the Electronic Register of Complaints and Signals at the national ombudsman.
- Law Program worked further on introducing local public mediators (ombudsmen) and establishing of cooperation between the national ombudsman and the local public mediators. In order to approach this goal, a series of events to summarize and exchange the experience gathered were organized.
- CSD continued to examine the opportunities for introducing specialized ombudsman institutions in Bulgaria, such as health services ombudsman, armed forces ombudsman, etc. Law Program experts made a thorough research of the foreign experience in establishing such institutions and its possible application in Bulgaria.

## I. Constitutional and Judicial Reform

### 1. Constitutional Reform

The Law Program continued its drafting and advocacy efforts aimed at promoting constitutional reform in Bulgaria. The activities combined both public events and publications.

- Law Program experts elaborated a comprehensive analysis of the past and necessary future amendments to the Bulgarian Constitution and their relation to the country's accession to the EU. The analysis, developed within the framework of the Communication Strategy for the Preparation of Bulgaria for Membership in the EU, was published as **Bulgarian Constitutional Reform in the Context of Bulgaria's EU Accession (2003-2005)**. The report offers an overview of the constitutional reform in Bulgaria starting with the amendments and supplements to the Constitution of the Republic of Bulgaria in the period 2003 – 2005. It traces the socio-political factors, which have affected those changes, identifying external factors as the

most crucial among them. Bulgarian constitutional reform is also placed in the comparative context of the experience of other countries that joined the EU in 2004. The report contains several annexes offering additional information on some of the issues under consideration, such as: proposals on the continuation of the judicial reform, the procedure for the application of the European Arrest Warrant and the legal background of opening of the real estate (including land) market to the EU Member States.

- On March 29, 2005, the report **Bulgarian Constitutional Reform in the Context of Bulgaria's EU Accession (2003-2005)** was officially presented at a public discussion, organized by CSD. The participants shared the opinion that the amendments to the Constitution adopted so far represent an important step towards EU accession but in the same time should be considered as the beginning of a wider and more complex constitutional reform in the longer term.



*Mr. Dimitar Pehlivanov, Ministry of Foreign Affairs (right) and the Program Director of CSD Mr. Boyko Todorov greet the participants in the discussion on constitutional reform*

## 2. Reforming the Judiciary

Contributing to the implementation of judicial reform in compliance with the requirements formulated by the EU, especially as regards the re-organization of the investigation service and the improvement of the effectiveness and accountability of the prosecution, CSD undertook a series of activities to further streamline the debate and encourage the development and practical realization of concrete measures.

### *Encouraging a European Dialogue*

As judicial reform has been one of the key aspects of Bulgaria's EU accession preparations, the Law Program has been facilitating the dialogue between Bulgarian and European partners in this area. On April 8-9, 2005, CSD held a highly representative international conference *Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution*. The event brought together representatives of the investigative bodies and prosecution offices from eight Southeast European countries,

Spain and the United States as well as representatives of a number of Bulgarian state institutions (the courts, the investigation, the Supreme Judicial Council, the National Assembly, the Ministry of Justice, the Ministry of Interior, the Constitutional Court, the Office of the President of the Republic), non-governmental organizations involved in judicial reform, international organizations, academia, experts, etc. The conference benefited from the participation of Director General of DG Justice, Freedom and Security Jonathan Faull who expressed his confidence that Bulgaria will manage to comply with the EU membership requirements on time and join the Union on January 1, 2007. Minister of Justice Anton Stankov and Deputy Minister of Justice Margarit Ganey presented the government's efforts in the area of judicial reform so far and the plans for future activities, stressing on the pro-active role of the Bulgarian civil society and in particular the Center for the Study of Democracy. The foreign participants made an overview of the organization of the prosecution office and the investigating authorities



*During the discussions at the international conference on the reforms of the prosecution and the investigation*



*Director General of DG Justice, Freedom and Security Jonathan Faull (left) and Dr. Maria Yordanova, Director of CSD Law Program, during the opening of the international conference on the reforms of the prosecution and the investigation*

in their countries, offering a variety of concepts that could be taken into account in the process of reforming the judiciary in Bulgaria. The set of proposals for reforming the judiciary developed by the Law Program experts were also disseminated among the participants.

Contributing to another major aspect of judicial reform in Bulgaria – the transparency and accountability to the public of the Bulgarian judiciary – on December 1, 2005, CSD jointly with the Embassy of Spain in Bulgaria organized a round table *Challenges to Transition: The Dialogue between Civil Society and the Judiciary*. Guest speaker at the event was Mr. Celso Rodríguez Padrón, General Secretary of the General Judicial Council of Spain. The event brought together members of parliament, senior representatives of the judiciary, ambassadors of EU Member States and other diplomats, representatives of non-governmental organizations and media.

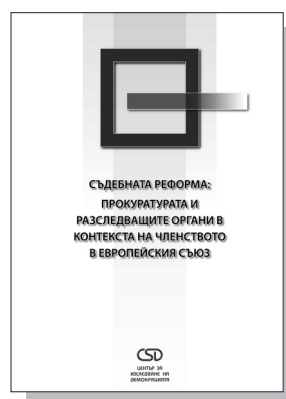
### *Publications*

The essay collection **The Courts, Prosecution and Investigation in the EU Member States and Accession Countries** reviews the organization and principles of activity of the courts, the prosecution and the investigation in the EU Member States, including the new ones, and the accession countries. The edition was aimed at supporting the process of Bulgaria's EU accession and contributing to the strengthening of the judiciary, especially regarding the organization and place of the prosecution and investigation in compliance with the good practices, applied in the EU member states and the other accession countries. The book was officially presented at the international conference *Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and*

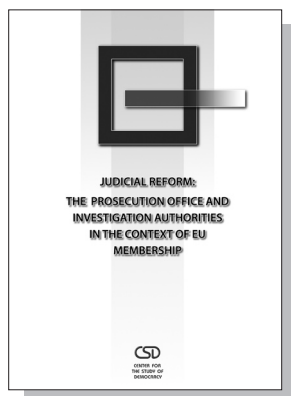
*the Prosecution* and was disseminated among all relevant stakeholders of judicial reform in the country.



The publication **Judicial Reform: The Prosecution Office and Investigation Authorities in the Context of EU Membership** offers a selection of articles, presenting the organization and the structure of the prosecution offices and the investigating authorities in the EU Member States and the candidate countries. Among the authors are representatives of the courts, the prosecution offices and the investigating bodies of Spain, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Hungary and the Czech Republic, the United States as well as judges, investigators, representatives of the legislature and the executive and non-governmental organizations



in Bulgaria. The aim of the book was to continue the broad public and expert debate on the different options to reform the judiciary in Bulgaria, following the successful models implemented in other countries.



### *Transferring Experience Abroad*

The experience accumulated by the Law Program in the area of judicial reform and anti-corruption allowed it to successfully transfer expertise to other countries. Law Program experts actively participated in the development of an anti-corruption pilot program to be delivered through the Global Development Learning Network to emerging democracies in Eastern Europe and Central Asia. In the fall of 2005 the program was delivered to representatives of public and private sector organizations and NGOs at the National Academy of Public Administration under the President of Ukraine, in Kiev, Ukraine and representatives from public and private sector and donor community in Bishkek, Kyrgyzstan. In the framework of the module entitled *Civic Initiatives for Judicial Reform and Countering Corruption* delivered on September 16, 2005, Dr. Maria Yordanova, Director of the Law Program, presented the introduction and development of a number of legislative initiatives and constitutional

amendments for countering internal corruption in the judiciary and listed some of the remaining challenges to judicial reform.

### **3. Commercial Registration Reform**

In the first half of 2005 Law Program experts had been the key resource persons for the development of the government **Strategy for Establishing a Central Register of Legal Persons and an Electronic Registries Center of the Republic of Bulgaria**. The Strategy outlines one of the key reforms of the judiciary and of the business environment in Bulgaria by facilitating the registration of legal entities. Early on in the year, the Law Program was also active in raising the awareness of the public and of professional communities about the reform. As part of these efforts Law Program Director Dr. Maria Yordanova and Project Coordinator Mr. Dimitar Markov presented the reform progress so far at the Fourth National Conference on Law and IT, held on January 14, 2005.

Following the adoption of the Strategy on April 28, 2005, and to mark the successful completion of the initial stage of the reform CSD jointly with the Ministry of Justice and the Registry Agency held a special press conference on May 17, 2005. The Director of the Law Program Dr. Maria Yordanova, the then Minister of Justice Mr. Anton Stankov, and Mr. Svetlozar Tonev, then Executive Director of the Registry Agency, explained to the representatives of some of the most influential Bulgarian media the main principles of the adopted strategy and the activities to be carried out to implement its objectives.

Law Program experts were also invited as members of the government task force preparing the legal framework



for the implementation of the first stage of the registration reform. In the fall of 2005 the task force presented an initial version of the Draft Law on Commercial Register together with explanatory notes to the draft law and Draft Rules for Maintenance and Keeping of the Commercial Register. The package of documents was submitted by the Minister of Justice to the government for the obligatory coordination procedure preceding the submission of the draft to the parliament.

In order to ensure wide support for the draft law among all stakeholders of the reform CSD together with the USAID Commercial Law Reform Program and in cooperation with the Registry Agency at the Ministry of Justice organized a public discussion on the Draft Law on Commercial Register. The event was held on October 21, 2005, and brought together representatives of the legislature, the executive

and the judiciary, non-governmental organizations, business associations, international organizations, experts and media. Most of the participants expressed their support for the proposed reforms and made specific recommendations for improving the provisions of the draft law.

## II. Establishing the Ombudsman Institution

### 1. Supporting the National Ombudsman

Thanks to the law drafting, advocacy and awareness raising efforts of CSD, Bulgaria has made considerable progress in the process of introducing ombudsman institutions throughout the country. Despite the big delay and the two unsuccessful elections in 2004, on April 13, 2005, the National Assembly elected the first Bulgarian national



*During the discussion on the commercial register draft law (from left to right): Mr. Nikolay Yanev, Legal Advisor, USAID Commercial Law Reform Program, Mr. Chris Thompson, Chief of Party, USAID Commercial Law Reform Program, Mr. Michel Fritz, Mission Director, USAID, Mr. Svetlozar Tonev, Executive Director, Registry Agency, Dr. Ognian Shentov, Chairman CSD, Dr. Maria Yordanova, Director, CSD Law Program, Mr. Borislav Belazelkov, Justice, Supreme Court of Cassation, Mr. Georgi Sabev, Attorney-at-Law, Mr. Dimitar Markov, Project Coordinator, CSD Law Program*

ombudsman. The election completed an important part of the process of introducing the ombudsman institution in the country. A civil society driven effort from the very beginning, the establishment of the ombudsman is a result of the effective public-private partnership between governmental institutions and non-governmental organizations, in particular the Center for the Study of Democracy.

- Following the election, CSD's Law Program played important role in the practical setting up of the new institution. The CSD Ombudsman Task Force drafted the **Rules on the Organization and Activities of the Ombudsman**, which were adopted by the National Assembly on May 18, 2005, and came into force on June 3, 2005.
- In recognition of the yearlong work and the experience, accumulated by CSD in the process of establishing the ombudsman institution in Bulgaria, on August 5, 2005, a **Partnership Statement between the Ombudsman of the Republic**

**of Bulgaria and the Center for the Study of Democracy** was signed by the newly elected ombudsman and the Center. The statement is a response to the necessity of cooperation between the ombudsman and the civil society in order to promote the institution as an authoritative and effective mechanism for human rights protection and to contribute for further improvement of the work of the administration. The areas of the future cooperation between the ombudsman and CSD are outlined in the statement as well.

## 2. Efforts to Improve the Legal Framework

Following the election of the ombudsman, experts of the Law Program in cooperation with the ombudsman and his team developed draft amendments to the Law on the Ombudsman focused primarily on the introduction of opportunity for legal persons to approach the institution. The provision that only natural persons are allowed to file complaints to the ombudsman is among the most serious



*The parliamentary ombudsman Mr. Ginyo Ganev and the CSD Chairman Dr. Ognian Shentov are signing the partnership statement*

weaknesses of the existing law and was criticized by the Law Program experts on a number of occasions. Still, the amendments were not enacted.

The CSD Ombudsman Task Force continued its efforts to promote constitutional amendments aimed at incorporating provisions on the national and local ombudsmen in the Bulgarian Constitution. Law Program experts developed a set of draft constitutional amendments about the ombudsman institution and presented them to the major stakeholders, including the national ombudsman, who was supportive of some. Thanks to the advocacy and awareness activities of CSD by the end of 2005 the proposal for including the ombudsman in the Constitution gradually gained support from the major political parties represented in parliament and it is therefore expected the ombudsman institution to become part of the next package of constitutional amendments planned for the first half of 2006.

### 3. Supporting the Development of Local Public Mediators

The introduction of local public mediators progressed even faster than the establishment of the national ombudsman. Benefiting from the support of CSD, several municipalities opened a procedure for electing public mediators. By the end of 2005 eleven municipalities have already established such an institution (Kavarna, Banite, Shumen, Popovo, Oryahovo, Sofia, Lesichevo, Pazardzhik, etc.), while a number of others have already initiated the process (Plovdiv, Razgrad, Velingrad, Burgas, etc.).

- On February 18, 2005, a municipality training seminar *Human Rights Promotion and Protection through the Institution of the Local Public Mediator*

was held in the city of Pazardzhik. The event was organized jointly by CSD and the Regional Fund – IGA, Pazardzhik, with the support of *Coalition 2000*. The seminar acquainted the participants with the advantages of the local ombudsman institution by presenting its legal framework as well as the accumulated experience and the practical aspects of its activity. The event aimed to facilitate the forthcoming election of a local public mediator in the municipality.

- On April 26, 2005 a workshop *The Local Public Mediators in Bulgaria: the First Year* was organized jointly with the *Coalition 2000* to discuss various aspects of the activities of the local public mediators since the introduction of the institution in the beginning of 2004. The acting local public mediators from Kavarna, Shumen, Sofia and Botevgrad together with the first academic ombudsman in Bulgaria, appointed at the Sofia University, representatives of municipalities, where public mediators are elected or elections are forthcoming, NGOs and media representatives participated in the event. Special guests at the workshop were the newly elected national ombudsman Mr. Ginyo Ganev and his deputy Mr. Metin Kazak. Mr. Ganev emphasized on the necessity of cooperation and interaction between the national ombudsman and the local public mediators. According to him, as the legislation does not explicitly provide for such interaction, relevant provisions should be included in the Rules on the Organization and Activities of the Ombudsman. The local mediators presented their first annual reports and summarized the experience, accumulated during the first year of their work.



*During the workshop on the first year of operation of local public mediators in Bulgaria*

- On July 5-6, 2005, a municipality training seminar *Human Rights Promotion and Protection through the Institution of the Local Public Mediator* took place in the city of Veliko Turnovo. It brought together public mediators, municipal officials and representatives of NGOs working in the field of human rights protection. The event was organized jointly by CSD and the Initiative for Sustainable Development *Local Agenda 21*, Veliko Turnovo. The first steps of the institution of the local public mediator throughout the country and the main shortcomings of its legislative framework were presented and discussed at the seminar. The specialized ombudsman for disadvantaged people, operating in the municipality of Varna – still the only one in the country – explained the specific features in the work of such an institution. The establishment of a network of the local public mediators was also discussed.

#### **4. Examining of the Possibilities of Introducing Specialized Ombudsmen Institutions**

A next step in the process of introducing the ombudsman institution in Bulgaria is the promotion and establishment of specialized ombudsmen in different

areas of public life, e.g. health ombudsman, armed forces ombudsman, etc. The creation of such institutions would be easily recognized by the general public as useful mechanisms for curbing corruption and maladministration in the activities of the relevant authorities and would gather significant social support. Several activities in this respect were carried out in the year 2005.

To facilitate the exchange of experience with European partners, CSD facilitated the visit of the Parliamentary Commissioner for the Armed Forces of the German Bundestag Dr. Willfried Penner to Bulgaria (March 1-2, 2005). During his visit Dr. Penner met with Mr. Venko Aleksandrov, Chairperson of the Parliamentary Committee on Foreign Policy, Defense and Security, as well as with the Deputy Minister of Defense Ms. Sonya Yankoulova. Dr. Penner delivered two lectures before representatives of the General Staff of the Bulgarian Armed Forces, MPs, representatives of diplomatic missions, NGOs, etc. As a follow up members of the Law Program visited the office of the Parliamentary Commissioner in Berlin and met representatives of the team of the newly elected commissioner Mr. Reinhold Robbe.



*The Parliamentary Commissioner for the Armed Forces of the German Bundestag Dr. Penner meets CSD representatives*

In order to encourage domestic debate, CSD's Law Program hosted a public discussion on the two **Draft Laws on the Patients' Rights and Obligations**, submitted to the 40th National Assembly (October 11, 2005). The event brought together experts at the Parliamentary Human Rights and Religious Affairs Committee, representatives of the par-

liamentary ombudsman, the Ministry of Health, the National Social Security Institute, the Sofia Municipality Public Mediator, non-governmental organizations working in the area of public health and patients' rights and media. The draft laws provide for the creation of a health ombudsman as a mechanism for the protection of patients' rights.



*Ms. Rada Kulekova, Dr. Maria Yordanova and Ms. Dragomira Paunova (left to right) during the discussion on the Draft Laws on the Patients' Rights and Obligations*

## 5. Publications

In the year 2005 the Law Program expanded its series of publications on the ombudsman by adding a handbook on the ombudsman institution in Bulgaria and a number of articles in the *European Ombudsmen Newsletter*.

- The handbook **The Ombudsman Institution in Bulgaria** presents a summarized overview of the process of establishment and development of the ombudsman institution on national and local level in the country (1998-2005). It offers comments and analysis of the legal framework as well as comprehensive information on the election of the first Bulgarian ombudsman and the activities of the local public mediators before and after the legal regulation of their operation. The public attitudes towards the ombudsman institution are also presented. In addition, the book includes a set of annexes such as the full text of the Law on the Ombudsman and the Regulation on the Organization and the Activity of the Ombudsman, an excerpt from the Law on Local Self-Government and Local Administration, materials related to the operation of the local public mediators, etc.
- The Law Program continued its active cooperation with the **European Ombudsmen Newsletter** by publishing a number of articles devoted to the ombudsman institution in Bulgaria. The 2005 contribution included:
  - **Establishment of public mediators but still no national ombudsman** (Issue No 4, April 2005);
  - **Tools to promote the ombudsman institution** (Issue No 4, April 2005);
  - **Ginyo Ganev Elected First Bulgarian National Ombudsman** (Issue No 5, October 2005);
  - **Rules on the Organization and Activities of the Ombudsman** (Issue No 5, October 2005).

## III. Electronic Commerce and Electronic Signature

The Law Program continued its activities related to the legal aspects of the introduction and use of the information technologies.

- Representatives of the Law Program, who in previous years had been involved in the drafting of the e-document and e-signature legislation, provided expert assistance to the process of development of a **Draft Law on Electronic Commerce**. The draft was prepared by a joint working group consisting of representatives of state institutions and non-governmental organizations and was publicly presented on March 28, 2005, at a workshop hosted by the Minister of State Administration. Representatives of the Law Program took part in the discussion and as a follow-up elaborated a set of proposals and recommendations for improving the initial version of the draft, which were sent to the drafting group.



- Law Program experts took part in the work of the task force coordinated by the Applied Research and Communications Fund (ARC Fund), which developed and disseminated a set of recommendations for harmonizing the Bulgarian anti-spam legislation with the European legal framework and the best practices implemented in other countries.

#### IV. International Cooperation and Activities

- A significant prerequisite for the results achieved by the Law Program in the process of introducing the ombudsman institution in Bulgaria is the active cooperation with foreign ombudsmen and representatives of their offices. Parallel to the regular exchange of information with ombudsmen from other European countries, CSD initiated a series of exchange visits to ombudsman institutions in Europe. Meetings with representatives of the Greek ombudsman in May, of the People's Defender of Catalonia and of the European Ombudsman in Strasbourg in July created opportunities for joint projects and sharing of experience with both CSD and the Bulgarian national and local ombudsman institutions. The discussions with the European Ombudsman officials focused the importance of the support of the European Parliament and the European Commission as well as the adequate financing within the framework of the European Parliament's budget. Among the other topics discussed during the meeting were the problems with the establishment of the ombudsman institution in Bulgaria, the possible interaction between the Bulgarian Ombudsman and the European Ombudsman and the opportunities for Bulgarian citizens and legal persons to address the European Ombudsman after Bulgaria's EU accession.
- Representatives of the Law Program continued to participate in international events and forums sharing the knowledge and experience accumulated in the field of constitutional and judicial reform in Bulgaria as well.
  - On June 7-8, 2005, an international conference *Reinforcement of Judicial System and Struggle against Corruption: a Starting Point for Social Dialogue and Workers' Rights* took place in Matera, Italy. The conference was organized within the framework of a PHARE project, implemented by the Institute for Cooperation and Development at the Common Labor Confederation of Italy. Participants from Bulgaria, Romania, Hungary and Italy, including representatives of trade unions, NGOs, enterprisers and employers' organizations and academics took part in the event. The presented national reports focused on topics such as: current trends in corruption practices, the state of the judiciary in the respective countries, anti-corruption legislation, corruption cases research and successful anti-corruption activities, the role of the multinational companies and strategies for counteracting corruption and strengthening the judiciary. The national report for Bulgaria was presented by Dr. Maria Yordanova, Director of the Law Program. In conclusion of the conference the participants discussed and endorsed a Declaration for cooperation in the fields of judicial reform, curbing corruption and organized crime.
  - Mr. Dimitar Markov, Project Coordinator of the Law Program took part

in the Regional Crime Prevention Forum for NGOs from Central and Eastern Europe. The event, held in Vienna on October 27-28, 2005, was organized jointly by the Conference of Non-Governmental Organizations in Consultative Relationship with the United Nations (CONGO) and the United Nations Office on Drugs and Crime (UNODC). The forum focused on the role of NGOs in the prevention of human trafficking, urban crime, and corruption.

- On November 10-11, 2005, the Director of the Law Program Dr. Maria Yordanova participated in the annual international conference *Bulgaria and Its Neighbors in a New Europe*. The event was held in Vienna and was organized by the Bulgarian Research Institute in Austria – Friends of Wittgenstein

House Association and the Austrian Institute on Eastern and Southeastern Europe. Dr. Yordanova delivered a presentation on corruption and organized crime in their national and regional characteristics and the activities of CSD in these fields.

- Dr. Maria Yordanova, Director of the Law Program, delivered a presentation on the role of the civil society in preventing and countering corruption in Bulgaria: the example of CSD and *Coalition 2000* at the international conference *Corruption as an Obstacle to Development: Policies, Tools and Strategies to Fight It*. The conference was held in Rome on November 22, 2005, and was organized by the International Development Law Organization in collaboration with Transparency International – Italy.



# Economic Program

In 2005 the Economic Program focused its work on the issues of corruption, hidden economy and more specifically corruption in the tax administration and its impact in the context of EU accession. The Economic Program's activities also included elaboration of innovative approaches to promote local and regional development, as well as analysis of innovations as an instrument for development of a knowledge-based economy.

## 2005 Highlights

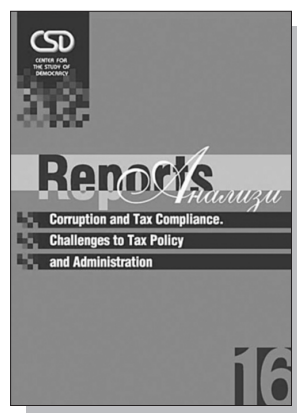
- The Economic Program continued to monitor the trends in the various manifestations of the **hidden economy**. According to the Hidden Economy Index in 2005 the share of the informal economy remained relatively stable. The Economic Program put special focus on analyzing corruption in the tax administration and the challenges it poses to tax policy.
- In 2005 the Economic Program continued to promote **good local governance** and to explore the opportunities for application in Bulgaria of the best European practices in decentralization. In the sphere of local development, CSD, is a partner in the RIS BRIDGE initiative, which aims to build regional capacity for work with the financial instruments of the Cohesion Policy after Bulgaria's accession to the EU and to enhance the potential of the regional authorities to set up policy measures designed to meet the actual technology and innovation needs of SMEs.
- CSD contributed to the annual report *Innovation.bg*, which monitors Bulgaria's preparedness for the knowledge-based society. In 2005, it analyzed the **National Innovation System**, based on five key indicators: innovation product, entrepreneurship and innovation networks, investment and financing, human capital, and information and communication technologies. CSD participated in the elaboration of the *Report for the President of the Republic of Bulgaria: Bulgaria 2010 – The Economic Challenges* in the chapters, dedicated to informal economy and business competitiveness.
- In 2004 CSD became host to the first **Bulgarian Distance Learning Center** of the World Bank's Global Development Learning Network. In 2005 the Center continued to offer a wide range of topics and useful knowledge to students, government and private sector representatives, and professionals in different spheres of the economy.

## I. Informal Economy and Anti-Corruption

According to the Hidden Economy Monitoring System of *Coalition 2000* the size of the hidden economy has decreased since 2002, but the shares of the hidden employment and hidden turnover remain high. Hence, as a whole its levels, together with its variations remain of concern.

One of the aspects of corruption, on which the Economic Program focused its efforts in 2005, was corruption in the tax administration. Though it is perceived to be at lower levels compared to customs, the police or the judiciary, surveys among businesses show that most of them believe that most of the tax officers are involved in corruption. The amount of the money involved is also among the highest as compared to that in other types of corrupt practices.

The Report *Corruption and Tax Compliance. Challenges to Tax Policy and Administration*, published in October 2005, makes an in-depth analysis of the phenomenon and its individual and institutional behavior. It also offers rec-



ommendations for improvement of the work of separate departments in the tax administration, as well as information about the level and incentives of tax-related corruption, which could be used for an update of the anticorruption policy.

*“Broadly speaking, business pays for two groups of corrupt services: tax evasion and ‘preferred customer’ treatment. To the briber, the net benefit of tax evasion equals the tax saved less the bribe. In the case of preferential*



*Konstantin Pashev, Senior Fellow of the Economic Program of CSD presents the main findings of the report *Corruption and Tax Compliance. Challenges to Tax Policy and Administration*, 18 October 2005*

*treatment, the briber's net benefit equals his or her opportunity cost of time saved less the bribe. Where such preferential treatment concerns a tax refund, the 'service' has a value directly measurable as a proportion of the tax refund. Hence, all other things being equal, the higher the tax burden and the lower the administration's effectiveness and the price of corrupt services, the higher the briber's incremental benefit. Another consideration to plug into this equation is the briber's level of certainty that the corrupt tax officer will deliver that for which he or she has been paid....*

*Despite some early signs of a downward trend, tax corruption in Bulgaria is still a major obstacle to market competition based on the principles of the level playing field and clear and predictable rules of the game. To curb tax corruption is therefore a major priority of economic policies seeking to improve the business environment and the economy's competitiveness, and to encourage investment, innovation and growth."*

Corruption and Tax Compliance.  
Challenges to Tax Policy and  
Administration  
Center for the Study of Democracy,  
2005.

In 2005 CSD continued to expand its expertise and to promote knowledge sharing in the sphere of anti-corruption practice and analysis of the informal economy. On 1 February 2005 CSD and Vitosha Research presented the dynamics of the Hidden Economy Index among the population for the period 2002 – 2004. The surveys show that the share of the population, who do not pay in full social and healthcare security contributions, has increased. The incentives for the business in favor

of the hidden economy remained high despite the administrative measures of 2003 for obligatory registration of all labor contracts. These measures proved to be of no tangible improvement in the administrative environment. As a result the level of confidence in public institutions and services remains low. On the other hand, the Index marks a decrease in the subsistence economy employment, which is a result of the gradual penetration of market forces in traditional home-made production spheres.

The hidden economy topic was additionally covered by the following series of events, organized by the Economic Program:

- CSD experts presented the trends in informal economy development according to the Hidden Economy Monitoring System of *Coalition 2000* at a conference *Grey Economy and Undeclared Employment*, organized by the Ministry of Labor and Social Policy on September 9 and 10, 2005.
- CSD experts presented the report *Corruption and Tax Compliance. Challenges to Tax Policy and Administration* at a round table on October 18, 2005 to representatives of the Parliamentary Anti-corruption Commission, the Ministry of Interior, the General Tax Directorate, and the Financial Intelligence Agency. The report was also discussed at a special meeting of the Parliamentary Anti-Corruption Commission with the participation of representatives of the tax administration. The findings of the report had wide media coverage and prompted changes in the *Law on VAT*.

One of the highlights on the Economic Program's agenda in 2005 was the international conference *EU Prospects and Security in South Eastern Europe*:



*The opening session of the EU Prospects and Security in South Eastern Europe conference*

*Hidden Economy, Transborder Crime and Development* held on October 28 and 29, 2005 with the support of the Friedrich Ebert Foundation and the Japan Foundation.

The event brought together researchers from prominent scientific institutions in Europe to share their views and discuss possible solutions to hidden economy challenges. The discussion centered on the social, business, national and regional security issues. During the event CSD experts presented the updated trends in the Hidden Economy Index as well as the possibilities for introduction of the flat tax in Bulgaria. The conference contributed to the design of an integrated research methodological framework to the informal economy, informal labor and transborder crime that is both targeted and comprehensive.

## II. Local Development and Self-Governance

One of the major activities of the Economic Program in 2005 was to continue to promote local development. A round table *Innovative Approaches for Enhancing Local Development and Self*

*Government of the Regions in Europe*, organized jointly with the Council of Europe on June 30 and July 1, 2005, representatives of the Chamber of the Regions of the Congress of Local and Regional Authorities of the Council of Europe, the National Association of Municipalities in Bulgaria, Municipal Governors and other stakeholders exchanged good practices for local and regional development. CSD experts discussed the **decentralization policies in Europe** and prospects for their application in Bulgaria. The participants defined the challenges facing local self-government, among which the still strong financial centralization at regional level and the mismatch between the rights, responsibilities and the resources of the municipalities. The participants discussed the necessary supplementary institutions and mechanisms at local and regional level, the need to improve the democratic system and horizontal accountability of the municipalities and the regions, and the influence of the EU membership on local government accountability.

The **establishment of Sofia Economic Council**, the strengthening of the local ombudsman institution, the Regional Development Plan and the development

of Regional Innovation Strategy for the South West Planning Region in Bulgaria were the three main recommendations for the improvement of economically effective local and regional governance in Bulgaria.

On May 30, 2005 CSD took part in the official presentation of the elaborated by fourteen non-governmental organizations report *Monitoring of the Work of Sofia Municipal Council 2004-2005*. The report analyses the Sofia Municipal Council's policy related to the management of municipal property and finance. One of the main conclusions was that Sofia Municipality needs to improve the planning process of its activities and to faster develop its working programs.

In 2005 CSD partnered in the launch of an initiative for the elaboration of the **Regional Innovation Strategy (RIS)** for the South West Region of Bulgaria. The RIS is an instrument of the European Commission for preparing the regional and local authorities to work with the

financial instruments of the Cohesion Policy after Bulgaria's accession in the EU. It also aims to improve the capacity of the regional authorities to set up policy measures designed to match the actual technology and innovation needs of the SMEs. The Center works on RIS BRIDGE in cooperation with partners from Greece, the UK and Germany.

The initiative is expected to wire up the innovation system of the South West region, to enhance the potential of the regional authorities to set up policy measures designed to meet the actual technology and innovation needs of the SMEs, and to build regional capacity to work with the financial instruments of the Cohesion Policy after Bulgaria's accession in the EU.

Three information days were held on November 11 and 25, and December 7, 2005 in the towns of Pernik, Blagoevgrad and Kyustendil in order to introduce the RIS BRIDGE initiative to the local authorities and initiate a networking and consensus building process.



*Participants in the RIS BRIDGE Information Day, 11 November 2005, Pernik*

### III. Innovation and Knowledge Economy



CSD recognizes the importance of innovation and knowledge economy as key factors for the increase of the Bulgarian economic competitiveness. Representatives of the Center participated in the elaboration of the report *Innovation.bg*, which was published in October 2005. The report monitors Bulgaria's preparedness for the knowledge economy on an annual basis. It makes an overview of the level of economic development in the context of capital and technology supply and describes the existing institutional and organizational structure of the National Innovation System and the market environment in which it operates. The report also discusses the state and possibilities for future development of the National Innovation System and focuses on the capacity of the national economy to absorb and diffuse foreign innovation and investment in new technologies. The analysis is made on the basis of five groups of indicators: national innovation product, entrepreneurship and innovation networks, investments and R&D financing, human capital and the state of the ICT sector.

As a recommendation the authors of the report stress that the Bulgarian innovation policy should focus on attract-

ing FDI with higher R&D content and stimulate the integration of the foreign investors in the national innovation system. They also put emphasis on the three main characteristics of the modern innovation-driven economy which Bulgaria should aim at in order to achieve better competitive positions in the world economy:

- routine innovation activity in the companies – in order to maintain their competitive advantages companies should create special R&D departments to plan and perform innovation;
- secure ownership rights and revenues for entrepreneurs – this includes but is not limited to rule of law, protection of intellectual property rights and developed market for technologies; and
- create opportunities for quick interaction and networking for innovation among economic agents through developing modern ICT infrastructure, quality education and better communication culture.

The Economic Program contributed to the fourth annual Knowledge Economy Forum **Business Environment and Knowledge for Private Sector Growth** organized by the World Bank and the Government of Turkey in Istanbul on March 22-24, 2005. The business environment, innovation, and learning and skills development were the three broad areas of discussion. These themes are essential for development of a Knowledge Economy and are key determinants of private sector growth. At the Forum, Mr. Ruslan Stefanov, Project Coordinator at CSD presented its practical experience in improving the business environment at local level in Bulgaria through the introduction of the Sofia Economic Council.

CSD was co-organizer of another major knowledge economy event in 2005 – **the Second National Innovation Forum**. The Forum, held on October 25, 2005, promoted dialogue among stakeholders in the country's national and regional innovation systems. It serves as a platform for exchange of ideas and cooperation between the government, the business community and research organizations. The main focus was on the Regional Innovation Strategies in Europe and in Bulgaria.

Mr. Ruslan Stefanov presented the report *Innovation.bg* to the Forum, and stressed that economic growth in Bulgaria during the last three years has not resulted in a sizeable increase in the overall technological level of Bulgarian firms. According to the data in the report, Bulgaria lags behind CEE countries regarding its share of innovative enterprises, quality of education, investment in R&D, availability of venture capital funds, access to innovation networks and political long-term vision for innovation. Major hindrance to investment in R&D is the lack of vision and political will for reform in the R&D sector, which remains dominated by the state, while the private sector stays disinterested.

The Forum set the stage for a number of interesting proposals for improving the functioning of the national innovation system. It filled an important gap in Bulgaria's economic policy by providing for the first time an overall estimate of the country's economic performance through innovation. The participants agreed that the driving force of the Bulgarian economy should no longer be the low cost of production factors, but rather innovation, technological improvement and human capital.

CSD experts also contributed to the elaboration of the **First Report for the**



**President Bulgaria 2010** with analyses of the informal economy and the Bulgarian economic competitiveness. In January 2004 the President commissioned the report highlighting the need to expand economic policy horizons beyond Bulgaria's EU accession expected in 2007. The President requested experts from various academic and research organizations to join efforts in identifying key economic challenges Bulgaria might face in the five years till 2010.

On January 23, 2005 the President of Bulgaria hosted a round table for the launch of the *Bulgaria 2010* report. The report makes an overview of the economic challenges facing Bulgaria beyond its EU accession. It highlights that the country should focus on key structural changes to improve the competitiveness of its enterprises while preserving the currency board arrangement and its balanced budget policy until the adoption of the euro as an official tender. The main focus of government attention till 2010 should include improved competitiveness and business environment, more efficient innovation and ICT adoption policies. The authors of the report underline that despite the slight upward trend, the levels of innovation development remain low. Bulgaria still needs to rebuild the interconnections in the national

innovation system, avoid duplication of efforts in the different research areas, and create incentives for increase of the business R&D spending and human capital, involved in the research sphere.

#### IV. Distance Learning

CSD continues its activities for supporting the exchange of knowledge through its Sofia Distance Learning Center. The Distance Learning Center is part of the World Bank's Global Development Learning Network (GDLN), which unites over 60 countries all over the world. Its objective is to create possibilities for training, exchange of knowledge and

dialogue between specialists, engaged in development issues. In 2005 the topics in the Distance Learning Center's agenda included anticorruption (CSD elaborated and delivered a series of five videoconferences on public private partnerships in countering corruption, hidden economy, corruption monitoring and assessment techniques, and the relationship of corruption and organized crime) auditing and accounting, global issues, investment climate, competitiveness and poverty reduction, strengthening of the *Commercial Law* framework, security and human development needs, and presentation of the World Development Report 2005.



*Videoconference: Presentation of the World Development Report 2005, April 18, 2005*  
 From left to right: Mr. Georgi Stoeff, Managing Partner, Industry Watch Group,  
 Mr. Ruslan Stefanov, Project Coordinator of the Economic Program, Center for the Study of  
 Democracy and Mr. Oscar de Bruyn Kops, World Bank Country Manager for Bulgaria



# Vitosha Research

## 2005 Highlights

- In 2005 Vitosha Research carried out 40 social, economic, marketing and media surveys. Quantitative and qualitative methods were used to conduct 29,500 face-to-face structured and semi-structured interviews, 110 in-depth interviews and 24 focus groups discussions. The results of the surveys were summarized in over 20 analytical reports.
- Vitosha Research focused on five thematic areas: corruption and hidden economy; crime, victimization, national and personal security; inter-ethnic relations; socio-economic problems and social assessment; market and business surveys.
- Corruption related surveys were carried out with representatives of different professional groups: lawyers, businessmen, and employees of the Ministry of the Interior. Work on the international informal networks project (Bulgaria, Romania, Slovenia and the Czech Republic) continued with a quantitative survey among the Bulgarian elite and drafting of the summary analytical report.
- The problems of security, organized and street crime were a specific focus in the research practice of Vitosha Research. A national representative victimization survey was carried out, as well as a study of the attitude towards the police of the Bulgarian population in general and some specific groups (businessmen, ethnic minorities, etc.).
- One of the priority research targets in 2005 was the social sphere and inter-ethnic relations in the country. A considerable part of the activity of Vitosha Research was devoted to the Index of Ethnic Integration in municipalities with a multi-ethnic and multi-religious population, as well as a survey of the socio-economic problems in the Roma communities.
- In 2005 Vitosha Research joined the consortium of research agencies in Europe, which conducted the international European Working Conditions Survey (ECWS) in 31 European countries. The consortium was lead by Gallup Europe, and Vitosha Research carried out the survey in Bulgaria.

## **I. Social and Economic Surveys**

### **1. European Working Conditions Survey**

The European Foundation for the Improvement of Living and Working Conditions carried out the fourth edition of its European Working Conditions Survey in September-October 2005. This is an international survey, covering 31 European countries, among them the 25 EU member states and the 3 candidate countries for EU membership – Romania, Bulgaria and Turkey.

The European Working Conditions Survey (EWCS) was aimed at:

- Providing an overview of the state of working conditions in the Member States of the European Union and Candidate Countries;
- Monitoring the nature and content of changes affecting the workforce and the quality of work in the EU;

In cooperation with Gallup Europe, Vitosha Research carried out the EWCS in Bulgaria. The research design included face-to-face interviews with working people aged 15 and over. In total 1135 working Bulgarians gave their opinion about different aspects of their working life such as working time, work organization and work-related health outcomes.

### **2. Study of Entrepreneurship Education in Bulgarian Schools**

The project was commissioned by the Ministry of Economy and included a survey among the representatives of the business sector, students in secondary general and vocational schools, school teachers and principals. The main objective of the project was to analyze

on a national scale the state of the process of entrepreneurship training in Bulgarian secondary vocational schools. The most important research findings were as follows:

1. Despite the existence of government documents, which stress the importance of entrepreneurship training and the formation of an entrepreneurial spirit, the political commitments for encouraging entrepreneurship in vocational education are still insufficient.
2. There is no comprehensive policy, coordinated with the business sector which accounts for the opportunities and requirements of the labor market.
3. A large part of the syllabuses in vocational education are outdated both with regard to modern technologies, as well as in comparison with those used in other European countries.
4. A serious problem of vocational education in the country is the lack of a uniform system for monitoring and assessing the status and the quality of entrepreneurship training.

A roundtable discussion was organized in November 2005 to present and discuss the survey findings and the package of measures aimed at raising the level of entrepreneurship prepared by Vitosha Research.

### **3. Taxation and Social Security Practices**

The main objective of the project is to assess the attitudes and expectations of the different categories of taxpayers to the work of the tax and social security

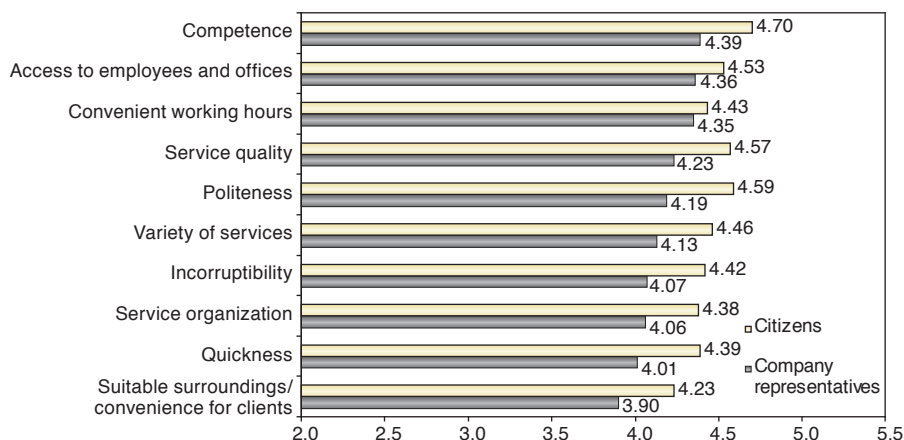
administration and to identify the needs and proposals to improve the activity of the two administrations. The analysis of the attitudes and assessments of taxpayers and social security contributors about the work of the tax administration (TA) and the National Social Security Institute (NSSI) will help to formulate recommendations for a change in the work of the two administrations. The summarized results of the survey will serve to improve the overall work of the tax and social security administrations in the context of the forthcoming reform in them and the creation of a National Income Agency.

#### 4. The Hidden Economy in Bulgaria

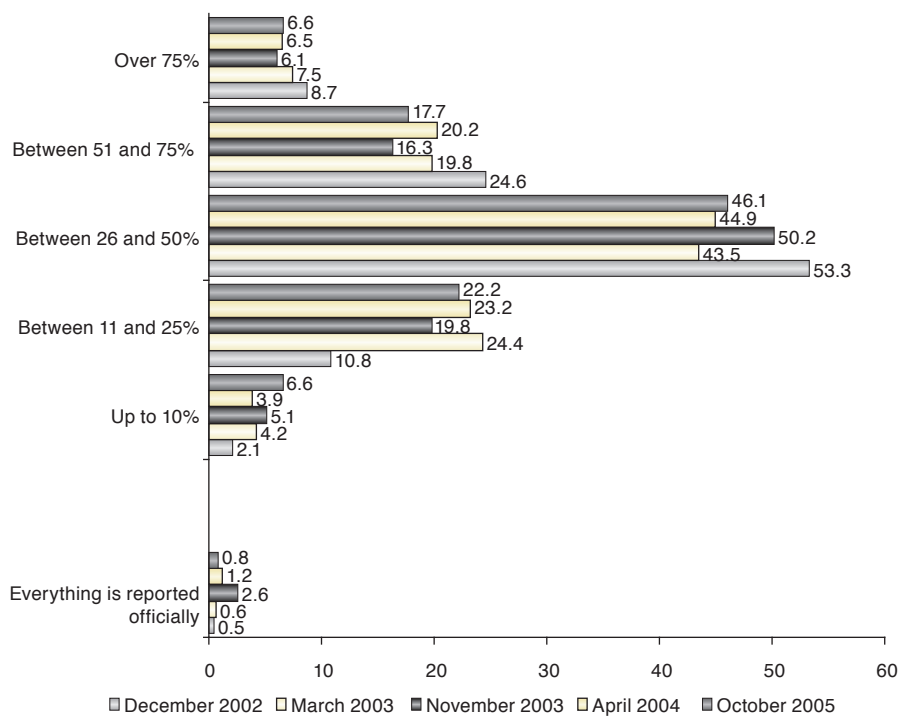
The regular Hidden Economy Survey of Vitosha Research was conducted in October 2005. The survey is part of the systematic monitoring of the hidden economy in Bulgaria (HEM), which Vitosha Research has been conducting since 2002. The survey included 308 companies from across the country. The survey employed the method of face-to-face interview.

The monitoring involves a series of representative surveys of the country's adult population and of the business sector. This makes it possible not only to observe the dynamics of the main hidden economy indicators but also to collect viable information about the differences in the attitudes of the general population and the business community towards the spread of hidden economy practices.

**Chart 1. Average assessments of the tax administration activities (in 2-6 scale)**



Source: Vitosha Research, Survey of Attitude of the Bulgarian citizens to taxation and social security practices.

**Chart 2. Estimated share of the hidden economy in Bulgaria**


Base: (Dec'02: N= 390; Mar '03: N= 308; Nov'03: N=313; Apr '04: N=336; Oct'05: N=243)

Source: Vitosha Research, October 2005 Hidden Economy Survey.

## 5. Index of Ethnic Integration

In 2005, Vitosha Research conducted two regional surveys commissioned by the Partners Bulgaria Foundation. The survey assessed the level of interethnic tolerance in twelve municipalities with higher concentration of Turks, Bulgarian Muslims and Roma population. For each of the studied municipalities an Index of Ethnic Integration was developed and a detailed analytical report based on the survey results was prepared.

The first study of six municipalities was carried out using a combination of quantitative and qualitative methods:

face-to-face interviews, focus group discussions and in-depth interviews. The other six municipalities were studied with quantitative research methods only. The results from the two surveys were presented on 22 September, 2005 at the Ethnic Integration and Tolerance conference organized by Partners Bulgaria Foundation and USAID. Some of the results and conclusions presented at the conference were as follows:

- The inter-ethnic problems related to the Roma community, are mainly of a socio-economic origin, and some of the tensions observed between Bulgarians and Turks are mainly

political. The inter-group differences are not based on religious factors. In settlements where more ethnic groups (Bulgarians, Turks and Roma) coexist, the ethnic differences are softer.

- Relatively good coexistence and a fairly tolerant acceptance of otherness are seen in all municipalities with the exception of Doupnitsa and Samokov. Inter-ethnic tension and a much lower level of ethnic integration are observed in these two municipalities.
- A sense of discrimination at the labor market is registered mainly among the Roma. In all four municipalities where representatives of this group were surveyed, from 17 to 26% of the interviewees stated that they had been subject to such behavior by potential employers.
- In four of the municipalities – Razgrad, Isperih, Devin and Momchilgrad – the population supports the integrated education of children from minority groups. In the other six municipalities there are staunch supporters of segregation in education, whose share ranges from 12% in Targovishte to 46% in Samokov (35% of the Roma in Samokov also do not want their children to be educated together with the Bulgarian children).

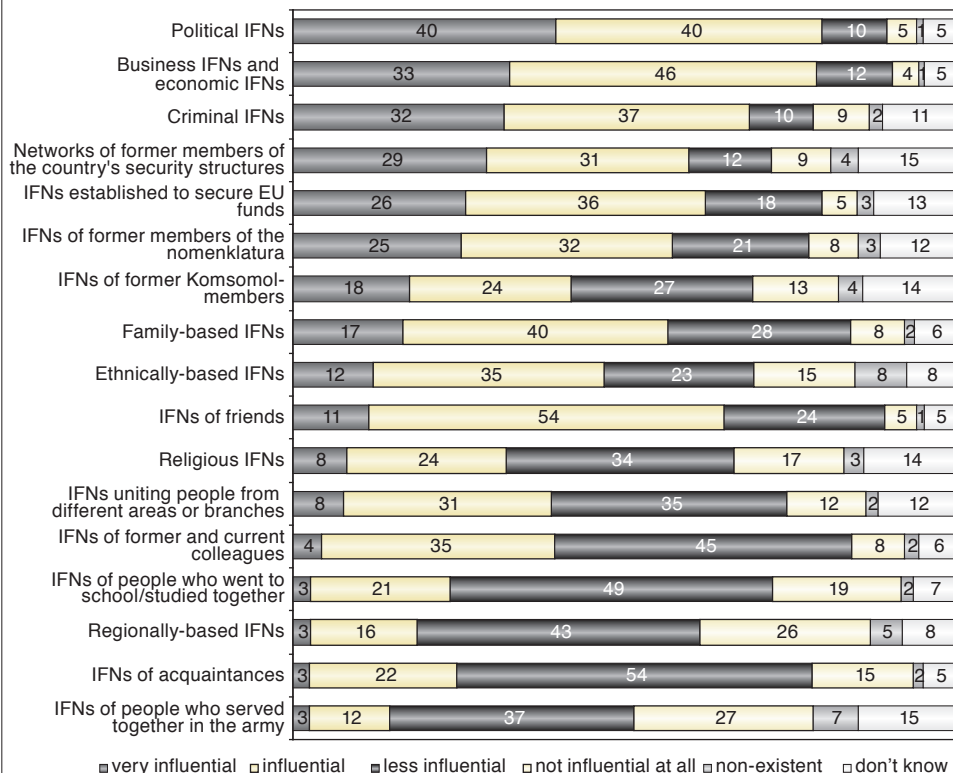
## II. Study of Corruption

### 1. The Role of Informal Networks

The project was carried out in Bulgaria, Romania, Slovenia and the Czech Republic under the leadership of the Norwegian Institute for Urban and Regional Research. The project analyzed the role of informal networks in politics, the economy, the judicial system and public life. Their positive and negative

aspects were studied in terms of rule of law, transparency of government and self-government, freedom of speech, civic participation and the establishment of a functioning market economy in Bulgaria. During the first phase in 2004 Vitosha Research interviewed government officials and Members of the Parliament, Bulgarian and foreign businessmen, representatives of media, of Bulgarian and international non-governmental organizations. At the second stage of the project, a round table was held for presenting, discussing, interpreting and supplementing the results from the survey of informal networks in Bulgaria. In 2005, Vitosha Research completed the final element of the project – a quantitative Elite Survey. Some of the main conclusions of the survey were:

- Elite representatives perceive the social environment in Bulgaria as favorable for the existence and development of informal relations.
- Requests to solve a problem in an informal way both directly as well as through intermediaries are a common practice in Bulgaria. Elite representatives who have never received such requests are fairly few.
- The representatives of the Bulgarian elite are approached most often for advice, help in speeding things up, assistance for access to information that is publicly available, but which is difficult to obtain, as well as with requests for finding work for somebody.
- The assessments of the influence of informal networks in one's own sector are more moderate than those of their influence on a national scale.

**Chart 3. Influence of informal networks (IFNs) in Bulgaria**


Source: Vitosha Research, *The Role of Informal Networks in Socio-Economic and Political Life in Bulgaria*.

## 2. Survey of Ministry of Interior officials

As part of a twinning project between the UK and Bulgaria to support anti-corruption measures with the Ministry of Interior (MoI), Vitosha Research was commissioned to survey attitudes of ministry officials towards corrupt practices and strategies to combat corruption. The 2005 survey was the last in a series of three studies which aimed to track the impact of the anti-

corruption measures introduced by the twinning project. The results of the VR studies were incorporated in the MoI anti-corruption policies developed by in the framework of the project.

## 3. Corruption in the Judiciary

The aim of the survey carried out by Vitosha Research was to study the corruption practices among legal practitioners. A quantitative survey was conducted among 250 attorneys in

regional centers. The main topics of the analysis included:

- The share of the cases in which informal payments are offered and received;
- The intensity of the corruption pressure directed towards lawyers from clients and magistrates;
- Forms and size of informal payments;
- Mechanisms for soliciting and obtaining informal payments;
- Factors for the spread of corruption in the judiciary;
- Effectiveness of anticorruption measures in the judiciary.

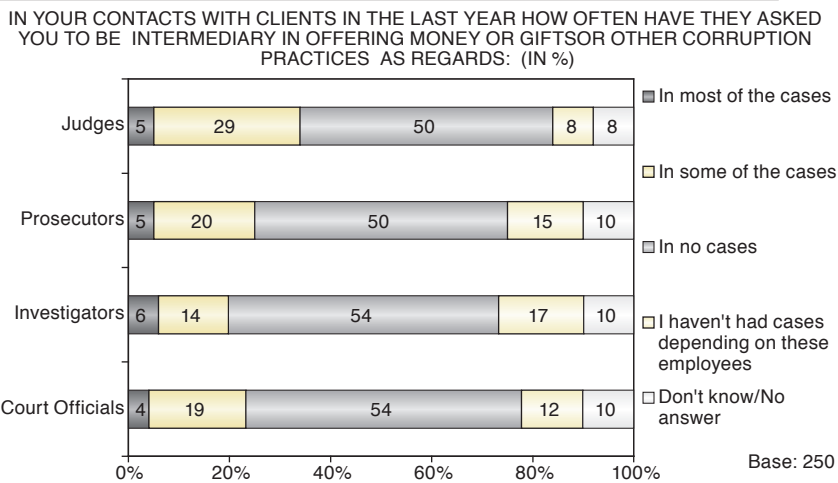
### III. IT, Marketing and Media Surveys

#### 1. Information Society in Bulgaria

In 2005 Vitosha Research studied the current state and trends in information society technologies and services in Bulgaria and developed a thorough description of the country development using following groups of indicators:

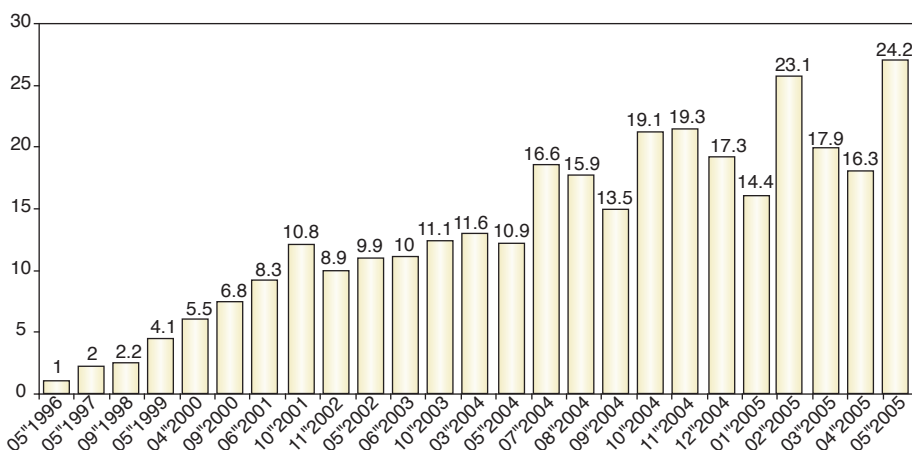
- ICT infrastructure and access;
- Skills and abilities;
- Stimulation for usage;
- E-Business;
- Public institutions available online;
- Obstacles to higher usage.

**Chart 4. Pressure exerted on lawyers as intermediaries in corruption transactions**



Source: Vitosha Research, Survey of Judiciary Corruption.

**Chart 5. Internet penetration among Bulgarian population aged 18 and over (1996 – 2005)**



Source: Vitosha Research, Omnibus surveys (1996-2005).

## 2. Marketing and Media Surveys

The marketing and media surveys carried out by Vitosha Research in 2005, covered mainly the following areas:

- Consumption of alcohol and spirits;
- The insurance market in Bulgaria
- The banking sector in Bulgaria;
- Common practices of antihypertensive (AH) therapy and factors influencing it
- Cost of labor and cost of living.

## IV. Elite and Public Opinion Surveys

### 1. World Bank Client Survey

The survey provided the World Bank office in Bulgaria with information about the views of its clients and partners operations and strategies in the country. This would help the bank

to develop new strategies and programs in support of the country development, consistent with the changing conditions in Bulgaria and in the context of its accession and future membership in the European Union. The information from the survey aimed at formulating the new Country Partnership Strategy (CPS) priorities. The main categories of respondents in the survey included official from: the Parliament, the President's administration, the Office of the Prime Minister, Council of Ministers, ministries and government agencies, local administration, judiciary, private sector organizations, media representatives, academia/think-tanks/research institutes, donors.

The study was carried out through a combination of quantitative and qualitative methods: personal face-to-face interview with 300 respondents representing World Bank clients, beneficiaries and external stakeholders; in-depth interviews with "core client" representatives – 32 officials at key positions in state institutions at national



level and with considerable experience and involvement in projects and activities of the World Bank in Bulgaria. The survey also included 4 focus group discussions with representatives of state administration at the national level. Each group focused on a specific development area – health, education, economy and infrastructure.

## 2. Business and Trade Union Leaders Survey

The main goal of this elite survey commissioned by Princeton Survey Research Associates International (USA) is to explore some basic problems Bulgarian Top Managers are facing with regards to their main activity, as well as some interpretations from leading Trade Union leaders.

A quantitative research method will be used to accomplish the objectives of the study. The owners, managers and chief executive officers (CEOs) of large and medium companies will be the basic target group of respondents for the quantitative survey. Additionally a subset of trade union leaders will be interviewed.

## 3. Assessment of Judicial Training Needs in Kyrgyzstan

Vitosha Research was the coordinator of a project *Judicial training needs in Kyrgyzstan* in Republic of Kyrgyzstan, commissioned by the International Development Law Organization (IDLO), based in Rome. Face-to-face interviews with judges from different courts and regions in the country were conducted. The quantitative survey was carried out among 194 judges in Kyrgyzstan.

The study aimed at exploring the possibilities for improving the education of judges and streamlining court administration procedures. The information

collected on the training needs of the Kyrgyzstan judges and judicial staff was related to the areas of substance, procedure and court administration. A curriculum based on the conducted needs assessment was developed.

## 4. Studies of Public Attitudes

### *The Roma*

VR assessed the changes in Roma population behavior in the last months of 2005 and the main factors influencing these changes. The design of the study included a combination of quantitative and qualitative research methods. Quantitative survey included personal structured interviews with representatives of the Roma community and other ethnic groups (Bulgarians and Turks mainly), living in the neighborhoods close to Roma hamlets areas.

The qualitative survey supplemented the analysis, provided more detailed explanation, and identified assessments and attitudes which could not be obtained with the analysis of the quantitative data only. The following main conclusions were made in the report:

- National television networks and informal information channels have a substantial role in the life of the Roma.
- The changes in the way of life and the behavior of the Roma as a result of media rhetoric in the recent months are limited, despite the fact that they call forth tension and fear among a part of the Roma community.
- Latent inter-ethnic tensions exist; under certain conditions they can evolve into open conflicts. Orienting the media to positive discriminatory rhetoric with regard to the Roma

would contribute to a more tolerant presentation and interpretation of the existing problems and to a mitigation of potential conflicts.

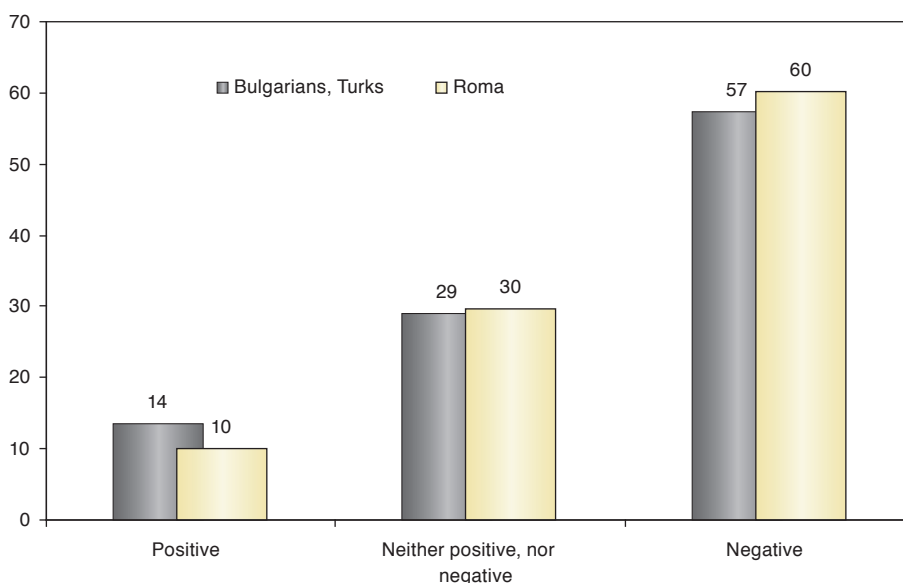
#### *The Ada Tepe mining project*

Vitosha Research conducted a public opinion survey among the population of Krumovgrad Municipality in Southern Bulgaria. The main goal of the survey was to find out how the local community feels about the gold mine construction project in the Ada Tepe area. The survey employed the method of the face-to-face interview and covered a total of 510 people living in the municipality center, as well as nearby villages located in the project impact area.

#### *New metro stations*

The primary goal of the survey was to examine how the local residents in the areas of the new metro stations under construction feel about the project, their awareness and current attitudes to the construction works. The survey was targeted at households living in the areas of the two new metro stations under construction in Sofia. One hundred face-to-face interviews were conducted with people living in the area of Sofia University and 102 interviews with households in the area of Vassil Levski National Stadium.

**Chart 6. Type of information disseminated about Roma population in Bulgaria (April-September 2005)**



Base: N= 500 Bulgarians and Turks; N=500 Roma

Source: Vitosha Research, *Public Opinion about Anti-Roma Attitudes in Bulgarian Media*

## V. Publications and Events

The results of the surveys conducted in 2005 were summarized in over 20 analytical reports, some of which are:

1. **Entrepreneurship in Secondary Education in Bulgaria**, November 2005
2. **Attitude of the Bulgarian citizens to tax and social security practice – need for change**, December 2005
3. **Informal Networks in Bulgaria**, December 2005
4. **World Bank Client Survey**, July 2005
5. **Public Opinion about the Rhetoric Related to the Roma Community in Bulgaria**, November 2005
6. **Index of Ethnic Integration**, April 2005
7. **Index of Ethnic Integration**, November 2005
8. **The Rate of Corruption in Bulgaria**, February 2005
9. **The information society in Bulgaria**, March 2005
10. **Judicial Training Needs Assessment Survey – Kyrgyzstan**, May 2005

Vitosha Research representatives contributed to the following events in 2005:

1. Participation in Anti-corruption conference in Moldova, organized by Center for Combating Economic Crime and Corruption and Moldavian market Research. Presentation of Vitosha Research – *Anti-corruption survey in Moldova*, 7-9 December 2005
2. Presentation of survey results at a conference *Ethnic Integration and Tolerance* organized by Partners Bulgaria Foundation and USAID, 22 November 2005
3. Presentation of Vitosha Research survey results at a workshop for *Media Rhetoric and Roma Community in Bulgaria* carried out by Partners Bulgaria Foundation with the support of the U. S. Agency for International Development (USAID), 30 November 2005
4. Participation in International Colloquium, *The Art of Stealing – Corruption in Europe and Latin America* organized by the Goethe-Institut São Paulo and University of Campinas, Brazil, 16-18 November 2005
5. Round table *Entrepreneurship in Secondary Education in Bulgaria*, organized by Vitosha Research, 4 November 2005
6. Videoconference on *Corruption Monitoring and Assessment Techniques*, organized by Center for the Study of Democracy and Sofia Distance Learning Center, 21 September 2005
7. Index of Hidden Economy: Press Conference for the Results from the “Hidden Economy” Monitoring among the Population, organized by Center for the Study of Democracy, 28-29 October 2005
8. *Corruption Monitoring Workshop*, organized by Center for the Study of Democracy and United Nations Office on Drugs and Crime (UNODC), 17-18 June 2005
9. Presentation *Monitoring and Measuring Levels of Corruption in Bulgaria and South East Europe* at IV Global

Forum on Fighting Corruption,  
Brazil, 7-10 June 2005

10. Presentation of results of CMS at seventh Anti-Corruption Policy Forum of *Coalition 2000*, 22 February 2005
11. *Crime Trends in Bulgaria: Police Statistics and Victimization Surveys*, Center for the Study of Democracy, 26 January 2005
12. *Public Forum "Education and Anticorruption"*, organized by *Coalition 2000*, 18 January 2005.

## European Program

In 2005 the issue of the new security threats in the context of Bulgaria's pending EU accession and accomplished NATO membership was the focus of activity of CSD's European Program. A main task on its agenda was to provide a public-private platform for the discussion of shared SEE approaches to combating corruption, organized crime and contraband.

### 2005 Highlights

- **NATO transformation** was one of the areas of particular interest for the European program in 2005. By general recognition, there remains a significant gap between the actual and the potential capabilities of the Alliance to promote the collective security interests of its Member States and those of the wider international community. The annual security conferences of CSD contribute to the broader debate on NATO's Transformation thus helping to bridge this gap through the outlining of bold new policies, overcoming legacy relationships and trans-Atlantic divides.
- The forging of a common **European agenda against organized crime** is one of EU's current preoccupations and accession and neighboring countries have a significant role to play. CSD's has been seeking to advocate a broader approach to organized crime in the process of Bulgaria's joining the EU, including through partnerships between law enforcement and the private sector.
- **Crime prevention** is also an area where CSD has been promoting common approaches by government institutions and civil society. To this end, CSD has led the way in Bulgaria in analyzing the trends in conventional crime and advocating the establishment of the National Crime Prevention Commission as a public-private partnership platform.
- For several years now, CSD is promoting the best international standards in the **export control of small arms and light weapons**. In 2005, this work was complemented by research into the spread of small arms in Bulgaria, efforts to transfer experience to neighboring countries and analysis of the role of private security companies.

### I. NATO Transformation

For the past few years the European Program has focused its attention on the new security agenda through a variety of tools such as research reports, monitoring activities and high-profile security conferences and events. The

Center makes special efforts to highlight the new risks related to trans-border organized crime, to advocate the new regional and EU security policy with a strong accent on anti-crime efforts, and to publicize innovative responses to the

new security threats. CSD has published several studies in this area and has, more importantly, created a regional platform for a debate involving both NATO and EU partners, and the Southeast European countries.

The *Third Annual Security Conference* of the Center for the Study of Democracy took place on November 19-20, 2005 in Sofia. The forum gave more prominence to ideas, concepts and policies which dominate the agenda of NATO, the EU and the wider international community in this field. The Black Sea and Southeast European regions have been chosen as sources of only some security problems, which complement the wider spectrum of concerns underlying the new security theories and practices. The debate benefited from the participation of Bulgaria's Prime Minister Sergey Stanishev, Ivailo Kalfin, Minister for Foreign Affairs, Rumen Petkov, Minister of Interior, SACEUR General James Jones, Gen. Nikola Kolev, Bulgarian Chief of Defense Staff, Maj. Gen. Alberto

Notari, DCOS ACT, Dr. Andrzej Karkozska, Director SDI, MOD Poland, Anton Buteyko, First Deputy Minister of Foreign Affairs of Ukraine, Petrit Karabina, Deputy Minister of Defense of Albania.

The speakers underlined that the future of the Alliance depends on the depth and speed of the transformation. Although many relevant decisions have been taken since 2002, much remains to be done in terms of national contributions, political will and capacity to overcome legacy thinking. Among the conclusions which may be drawn is that the time up to the next NATO Summit in 2006 should be wisely and actively used for the preparation of the relevant decisions in the field of transformation.

The *Third Annual Security Conference* was preceded by a number of expert-level discussions with international participation. A seminar on security strategies for experts in the Ministries of Foreign Affairs and Defense of Serbia



*From left to right: Dr. Ognian Shentov, CSD Chairman, Sergey Stanishev, Prime Minister of Bulgaria, Gen. James Jones, SACEUR, Amb. Boyko Noev, CSD European Program Director, Prof. Sergey Karaganov, Chairman of the Council for Foreign and Defense Policy, Russia and Gen. Nikola Kolev, Chief of General Staff of the Bulgarian Army*

and Montenegro, Albania, Bosnia and Herzegovina, Romania and Hungary took place on October 13-14, 2005. The discussion focused on security perceptions which affect the political and security thinking in SEE after the major changes in the security environment and the emergence of new security threats. The seminar was organized by the CSD, in partnership with the Ministry of Foreign Affairs of Bulgaria, the Ministry of Foreign Affairs of Serbia and Montenegro and the Embassy of Norway in Sofia, and was part of the agenda of the Southeast Europe Steering Cooperation Group (SEEGROUP) which meets on a regular basis at NATO Headquarters in Brussels. The event benefited from the contributions of NATO representatives, SEE diplomats and experts from Bulgarian NGOs specializing in security issues.

## II. European Agenda against Organized Crime

CSD's European program has also turned the spotlight on the overlap of the domestic and international aspects

of security and has tried to engage EU member states in a debate over the issue. On March 2, 2005, the Center for the Study of Democracy, jointly with the British Embassy and the Ministry of Interior of Bulgaria, held a discussion on *Combating Organized Crime in the 21st Century*. It featured the British experience in coordinating efforts to combat organized crime presenting as a relevant example the strategy of the newly established Serious Organised Crime Agency (SOCA).

The discussion benefited from the participation of Ms. Caroline Flint, Parliamentary Under-Secretary of State for Drugs Co-ordination, Organised Crime and European Issues at the UK Home Office, Mr. William Hughes, Director General of SOCA, Mr. Boyko Kotzev, Deputy Minister of Interior and Gen. Boyko Borissov, Secretary General of the Ministry of Interior.

*I am keen for us to learn from the advanced thinking of the Centre for the Study of Democracy, with whom our Embassy has a number of projects*



*From left: Ms. Caroline Flint, Prof. Georgi Petkanov, Minister of Interior, Mr. Boyko Kotzev, Deputy Minister of Interior and Mr. William Hughes, Director General of SOCA*

*in the JHA field. The Centre has already recognised that, in some key respects, organised criminals act like any other business. This approach is shown in many of your projects, such as the Informal Economy Index, which identifies the most vulnerable areas of the economy; and the Corruption Monitoring System, which tracks the dynamics of corrupt behaviour.*

**Caroline Flint  
State, UK Foreign Office**

Among the topics of CSD research closely related to organized crime is the drug market in Bulgaria. On March 18, 2005 the CSD hosted a discussion *Drug Market and Organized Crime in Bulgaria: One Year Later* to analyze the trends since the launch of the **Drug Market in Bulgaria** report at the end of 2003. The main new findings in the area were presented by CSD Senior Analyst Tihomir Bezlov and Gen. Boyko Borissov, General Secretary of the Ministry of Interior. The discussion benefited from the participation of representatives of government agencies, law-enforcement bodies, non-

governmental organizations, foreign missions and the media.

### III. Crime Prevention Partnerships

In 2005, the Center continued to encourage public-private partnership in tackling crime. In June 2005, CSD hosted the launch of the National Crime Prevention Commission established jointly with the Ministry of Interior. The Commission, which brings together public institutions and non-governmental organizations, will meet the need of wider community participation in tackling crime. Its task will be to identify crime trends and find effective remedies to the proliferation of crime in everyday life. The Commission will give priority to improving coordination among all stakeholders, developing new prevention initiatives and awareness-raising and advocacy campaigns aiming to alleviate the negative impact of crime on community life.

The first meeting of the National Crime Prevention Commission took place on



*From left: Mr. Tihomir Bezlov, CSD Senior Analyst, Gen. Boyko Borissov, Secretary General of the Ministry of Interior and Mr. Boyko Todorov, CSD Program Director*



13 December, 2005. The meeting, chaired by the Minister of Interior Rumen Petkov, discussed a possible partnership between state institutions and the private business in crime prevention activities and elaborated a plan of activities for the year of 2006. The experience of the EU member states in crime prevention was presented as well.

CSD presented a draft plan of activities for the next year built around four major activities:

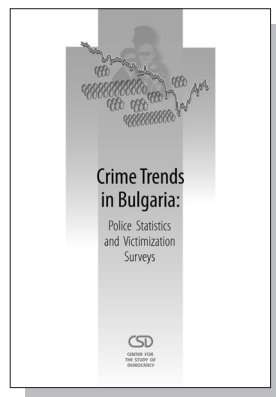
- Analysis of the trends in the petty crime;
- Discussion on the consequences of crime for the business;
- Discussion on the problems related to the marginalized social groups;
- Prevention of organized crime.

In 2005, the Center also looked into the larger crime situation in Bulgaria. The report **Crime Trends in Bulgaria: Police Statistics and Victimization Surveys** was publicly presented in January 2005. CSD uses a nationally representative crime victimization survey polling people's experiences with crime as an alternative analytical tool to make an

independent assessment of the crime situation in Bulgaria for the period 2001–2004.

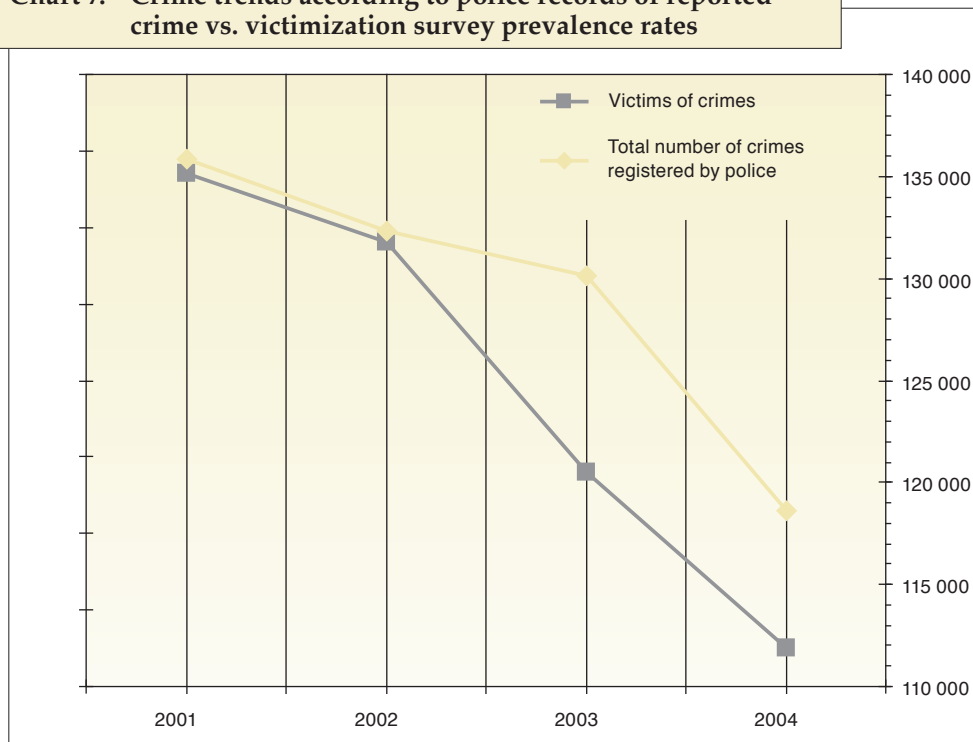
Unlike official crime statistics collected by the ministries of interior and justice, the regular crime victimization surveys help the police and government authorities, as well as the public to understand:

- whether the official police crime data reflect the real crime rate and crime trends;
- the volume of the unreported crime;
- the reasons victims do not report crimes to the police;



*From left: Dr. Ognian Shentov, CSD Chairman, Mr. Boyko Kotzev, Deputy Minister of Interior, Mr. Roumen Petkov, Minister of Interior and Mr. Jeremy Hill, UK Ambassador*

**Chart 7. Crime trends according to police records of reported crime vs. victimization survey prevalence rates**

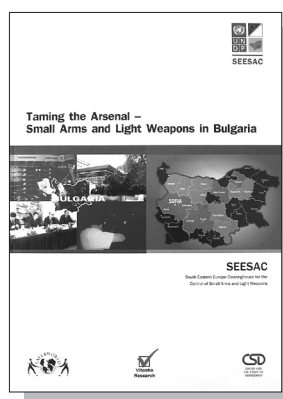


- whether the police avoids registering reported crimes;
- the profile of the social groups that are most at risk of falling victims to crime.

questions relating to small arms and light weapons in Bulgaria from July to November 2004 by the CSD, and London-based Saferworld.

#### IV. Small Arms Export Control

The Center for the Study of Democracy in cooperation with Saferworld, UK is carrying out an assessment of the **existing controls on small arms and light weapons in Bulgaria**. This assessment is providing an in-depth analysis of the outstanding challenges posed by the Bulgarian arms control system and will outline ways to overcome such problems. The report **Taming the Arsenal: Small Arms and Light Weapons in Bulgaria**, presented on March 30, 2005, summarizes the findings of a research conducted on



The Center puts an emphasis on sharing the Bulgarian experience with relevant actors from the countries in the region. The South Eastern Europe

regional seminar *Towards NATO and EU Accession: Effective Export Control Legislation – Lessons Learned* took place on June 21-22, 2005. The seminar was jointly organized by the Ministry of Foreign Affairs of Bulgaria, the Center for the Study of Democracy and the South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC). It aimed at contributing to the process of bringing the export control legislation in line with the EU and NATO requirements and strengthening the mechanisms for its implementation. Experts from Albania, Bosnia and Herzegovina, Croatia, Macedonia, Romania and Moldova participated in the seminar.



*Participants in the seminar on export controls*

CSD Research Fellow, Philip Gounev, carried out research on the role of private security companies in Bulgaria.



*CSD Research Fellow Philip Gounev presenting the report*

The findings were included in the report **Small Arms and Light Weapons and Private Security Companies in South Eastern Europe: A Cause or Effect of Insecurity?**, published by the South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC). On 14 September, 2005 the Center for the Study of Democracy, jointly with the Saferworld presented the report findings at a public discussion on the role of private security companies.

## Information Centre on the Council of Europe in Sofia

*The Center for the Study of Democracy has been hosting the Information Centre on the Council of Europe in Sofia since 1993. The Information Centre provides the Bulgarian public and institutions with information on the activities and supports Council activities in priority areas. Below are some of the highlights for the 2005. Additional information is available at [www.cid.bg](http://www.cid.bg)*

### *Year for Democratic Citizenship through Education*

The Centre held a number of events aiming at promoting the European Year of Citizenship through Education. On that occasion the Council of Europe's brochure T-Kit on Intercultural Learning was published in Bulgarian. It was later distributed within the education and public library network. The other Council of Europe's brochure, which was translated in Bulgarian – T-Kit on European Citizenship, is used by both expert-teachers and by the youth audience. A number of public lectures were held on the European standards on citizenship and on the perspectives to the Bulgarian youth.

The Information Centre took an active part in the organization body responsible for the European Year.

### *The Warsaw Summit*

The Information Centre organized a press conference to inform the media about the importance of the Third Summit of the Heads of States and Governments of the Council of Europe, which took place in the Polish capital on 16-17 May. The main documents, namely the adopted Plan of Action, which confirms the Council of Europe leading role in developing democracy, human rights and the rule of law were distributed and commented.

In relation to this event the Information Centre updated its system for informing the journalists from the main newspapers about the CoE activities regularly in Bulgarian language.

### *The European Cultural Convention Anniversary*

Information Centre on the Council of Europe in Sofia opened an exhibition in the Euro-Bulgarian Cultural Centre (EBCC) dedicated to the 50th anniversary of the Cultural Convention. The exposition contains posters from the annual exhibitions organised by the Council since 1954 in different member states illustrating most of the great epochs: Byzantine, Romanesque, Gothic, Humanist, Classical, Baroque, Rococo, Neo-Classical, Romantic, Modern and Contemporary, and focused more particularly on people who left an indelible mark on their time: for instance Charlemagne, Queen Christina of Sweden, the Knights of Malta, the Medicis or King Christian IV of Denmark. The exhibition in Sofia was inaugurated by Mr. Yavor Koynakov, director of EBCC and Emil Tsenkov, director of ICCE-Sofia. Ms. Deiana Danailova, director of the European Cooperation Department of the Ministry of Culture and Tourism, made a retrospective presentation of the cooperation between Council of Europe and Bulgaria.

### *Gender Equality Partnership*

The Information Centre formed a close partnership with the Bulgarian Gender Equality Coalition and with the Bulgarian Gender Research Foundation in relation to the introduction of the anti-discrimination legislation in accordance with the European standards. That partnership resulted in the public discussion on Macroeconomic Aspects of the Gender Equality, which was held on September 16, 2005, followed by the discussion on *Does Society Understand What are We Trying to Say?*, held on December 5. The participants exchanged ideas about the necessity of expanding the information campaign for actual guarantee of the Bulgarian women's equality in the context of the European standards of the Council of Europe. The partnership with these NGOs included the planning of a number of forthcoming events.

### *e-Democracy Contest*

The Information Centre co-organized also an essay contest on "E-Democracy 2017: Challenges to Political Parties

and Civil Society". The contest was organized jointly by the Bulgaria Development Gateway, the Information Centre on the Council of Europe in Sofia and the Coordination Center on ICT, and took place under the auspices of the Minister of Public Administration, Mr. Dimitar Kalchev. Its participants were acquainted with Rec (2004)<sup>11</sup> and Rec (2004)<sup>15</sup> of the Council of Europe, in addition to the **Green Paper on the future of democracy in Europe (2004)**. The authors of 14 competing essays were invited to take part in a round table discussion organized on May 20, 2005. The event brought together over 30 participants – leading experts in political science, information technologies and international relations.

### *Prevention of Violence against Children*

Another partnership between the Information Centre and the Childhood without Tears Foundation was focused on Bulgaria's important issue of the violence against children. The initial roundtable on Prevention of Violence in Schools – a Common European Priority was held on October 12, 2005.



*Participants in the discussion "Does Society Understand What are We Trying to Say?"*

Representatives of state institutions, NGOs and media attended the discussion. The Information Centre disseminated the text of Council of Europe's brochure *Violence in Schools – a Challenge for the Local Community*. The Information Centre and Childhood without Tears organized a joint press-conference at which they presented a project for better protection of children witnessing in court.



*Participants in the roundtable on prevention of violence in schools*

\* \* \*

The Information Centre's library continued its activities towards providing information on Council of Europe's activities and Bulgaria's participation in it. In order to do that the following CoE publications were translated:

- **Violence in Schools – a Challenge for the Local Community**
- **A Partnership Approach to Crime Prevention**



## Coalition 2000

CSD has been the Secretariat of *Coalition 2000* since its launch in 1998. Since then, the Coalition has made a significant impact in the field of anti-corruption in Bulgaria. Through its efforts, both the assessment of corruption and anti-corruption policies came to reflect the best international standards. The 2005 focus areas of *Coalition 2000* were:

- developing and advocating anti-corruption policy reforms;
- successful establishment of the national and local ombudsman offices. The achievements in this area are described in the section on CSD' Law Program.

### I. Advocating Anti-Corruption Policies

On 22 February, 2005 at the Boyana Conference Center, *Coalition 2000* hosted the Seventh Anticorruption Policy Forum. The Forum, organized annually by *Coalition 2000*, is a high profile public event for anti-corruption initiatives, bridging the efforts of the civil society and public institutions in the fight against corruption.

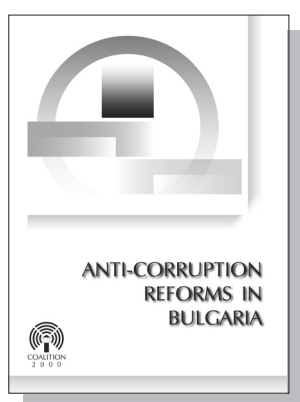
The event was focused on the presentation and discussion of the annual corruption assessment report for 2004 of *Coalition 2000*, which this year was titled **Anticorruption Reforms in Bulgaria**. The report makes an overview of the major achievements and problems of anticorruption reforms in Bulgaria since 1997 and analyses the dynamics of corruption in the Bulgarian society.



From left to right: Ms. Anastasia Moser, MP, Co-Chairperson, Parliamentary Group of the People's Union, Ms. Debra McFarland, Mission Director, USAID, Bulgaria, Dr. Ognian Shentov, CSD Chairman, Mr. Anton Stankov, Minister of Justice, Chairman, Anti-Corruption Coordination Commission, Council of Ministers.

One key concept emphasized at the Forum was the role of public-private partnership in counteracting corruption as an important social innovation over the past seven years, both in Bulgaria and abroad. Another main idea that permeated the discussions was that the building of a national anticorruption infrastructure in Bulgaria was made possible as a result of the parallel functioning of three major factors: civic initiatives and activities of the civil society; cooperation with the state administration and governments; a strong support by the international community.

The report **Anti-Corruption Reforms in Bulgaria** highlights the present-day challenges that Bulgaria should meet with its upcoming accession to the EU, such as overcoming its structural and institutional failures, the effective operation of the judiciary and law-enforcement, and organized crime and gray economy which generate corruption practices.



*The drop in the absolute number of corruption transactions actually concluded has been significant – around two-fold.... Nevertheless, corruption in the economy still poses a serious problem and the anticorruption reforms in the business sector have been proceeding at a slower pace.*

### **Anti-Corruption Reforms in Bulgaria** pp. 6-7

Another emphasis in the report is the prominent role of civil society as the initiator of the public debate on corruption that should largely be credited for pushing the anticorruption reforms up to a whole new level. Whereas in 1997 raising public awareness of corrupt practices and problems was perceived as the main task of anticorruption efforts, subsequently the goals were redefined and prioritized developing and implementing clear-cut and practical anticorruption measures, programs, and policies in the areas of legislation, the political process, and public administration.

On 31 March, 2005 at the American Embassy in Sofia *Coalition 2000* organized a ceremony for bestowing the annual awards for best journalistic materials on corruption-related topics published or broadcast in 2004 in Bulgaria. For a first year, two categories were introduced in the contest: for publications in print media and for materials broadcast by electronic media. 22 journalists from over 15 print and electronic media from all over the country publicizing cases of corruption or successful anticorruption activities participated in the 2004 competition. It was conducted for a third consecutive year. In 2002 *Coalition 2000* initiated the awards competition for best materials investigating corruption to stimulate the active anticorruption



position of the Bulgarian journalists and the media as a whole.

The third annual awards were presented by the US Ambassador to Bulgaria James Pardew. In his welcome address, Ambassador Pardew emphasized the fact that independent media searching for the truth are a major factor for guaranteeing the freedom of speech and democracy. He also objected to the use of the judiciary system in Bulgaria for intimidating media that investigate corruption cases. Ambassador Pardew congratulated the prizewinning journalists for their courage to take personal and professional risks by reporting stories of corrupt politicians and organized crime.

\* \* \*

The experience of Bulgarian NGOs in monitoring and measuring corruption is receiving increasing international recognition. On 17 and 18 June, 2005 the Center for the Study of Democracy hosted a workshop on the future of corruption monitoring jointly organized with the United Nations Office on Drugs and Crime (UNODC). The workshop brought together leading experts in the field to discuss the role of corruption monitoring in the context of the evolving international anti-corruption policies. At the two-day event issues related to the methodology of international comparisons and interpretation of results were also debated, such as: whether the existing data is sufficient for the development of reliable comparisons over time and among different countries and how this data could be used in the domestic and international political decision-making.



*Award-winning journalists at the ceremony, from left to right: Evgeni Todorov, Plovdiv Public TV; Todor Gospodinov, 168 Hours Weekly, Varna; Milena Dimitrova, Cash Daily; Ekaterina Aneva, NTV; Vassil Ivanov, NTV; Ambassador James Pardew; Mirolyuba Benatova, BTV; Dimitar Iliev, 168 Hours Weekly; Kristina Koleva, ProMedia.*



*Panel participants from left to right: Dimitri Vlassis, Chief, Crimes Convention Section, UNODC, Dr. Ognian Shentov, CSD Chairman, Nikolai Milkov, Deputy Minister of Foreign Affairs*

In the light of the forthcoming entry into force of the United Nations Convention against Corruption (UNCAC), the workshop took stock of existing approaches and methods to assess the levels, nature, location and impact of corruption and their respective impact both on the public as well as on policy makers, as well as to monitor the implementation of international instruments against corruption, with a view to identify basic parameters for the measuring and monitoring of corruption and anti-corruption.



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## **Part Two**

# **Administration and Management**



## Administration and Management

Sound management is key to CSD's excellence in achieving its mission and delivering on its goals in research and program development. During the last 16 years, the Center has been working with a wide variety of partners and donors, public and private, bilateral and multilateral. As a result of the interaction with such a broad range of general and financial management, the CSD's internal managerial and control systems have met the best international standards. Membership in the European Union will increase the disbursement of public funds in Bulgaria and will thus require enhanced transparency and accountability of both government and private sector. With its long experience in making these its leading principles, CSD is well positioned to contribute to the public scrutiny of the use of EU assistance.

CSD capacity in this field has been built through a number of channels:

- publishing independent, annual audit reports (since 1992; CSD's financial statements and KPMG audit report for 2005 follow);
- performing audits of individual projects (since 1992);
- publishing annual reports (since 1994);
- uploading detailed information on CSD's activities on its web-site;
- releasing information on projects and activities in the mass-media;
- publishing a range of print materials;
- strengthening of the consulting arms of CSD – Vitosha Research and Project One.

CSD is registered as a public benefit organization with the Central Registry of NGOs at the Ministry of Justice. Public benefit organizations are obliged by law to a number of additional reporting rules and undergo stricter financial and administrative scrutiny.

In 2005, CSD continued its long-standing commitment to review and update its internal system of rules and regulations, which it applies in administrative and financial management, recruitment, accounting, etc., taking into account new legislative changes in the NGO sector and most recent international experience. The Center has established a number of internal formal and informal staff meeting opportunities to ensure continuous learning and feedback mechanisms.

In 2005, CSD employed 43 staff of which 36 were professional and management, including part-time consultants, and 7 were administrative personnel. The Center also works with a significant number of external contributors. CSD has been developing and implementing complex projects, which involve participants from the Center and outside experts and partners from the public and private sectors and the NGO community. CSD has been able to continuously streamline its activities and get the most from its donors' funds through a balanced leverage between in-house resources and outside expertise.

## List of Staff

### Governing Board

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

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Boyko Todorov, Program Director  
Lydia Mileva, Financial Manager

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Ruslan Stefanov, Coordinator  
Todor Yalamov, Project Coordinator  
Petkan Iliev, Senior Fellow  
Konstantin Pashev, PhD, Senior Fellow  
Boyan Belev, PhD, Senior Fellow  
Plamen Tchipev, PhD, Senior Fellow  
Daniela Mineva, Fellow

### Law Program

Maria Yordanova, PhD, Director  
Dimitar Markov, Project Coordinator  
Rositsa Elazar, Administrator  
Dragomira Paunova, Project Assistant  
Alexander Roussanov, Assistant

### Vitosha Research

Alexander Stoyanov, Director  
Andrey Nonchev, Deputy Director  
Tihomir Bezlov, Senior Researcher  
Martin Dimov, Project Manager  
Ralitza Ruseva, Project Manager  
Slavyanka Ivanova, Project Manager  
Margarita Tzvetkova, Project Manager  
Kalina Nedeva, Senior Researcher  
Hristo Hristov, Researcher  
Stanislava Kotulova, Office Manager  
Tzvetoslava Tosheva, Cashier-Accountant

### Information Centre on the Council of Europe, Sofia

Emil Tsenkov, PhD, Director  
Maria Doichinova, Assistant

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European Program

Boyko Noev, Ambassador, Director

Denislava Simeonova, Project Coordinator

Chavdar Chervenkov, Lieut. Gen. (ret.) Senior Fellow

Philip Gounev, Research Fellow

Milena Yordanova, Assistant

Administration

Mariana Yankova, Administrative Secretary

Yanita Georgieva, Executive Assistant

Nickolay Karshev, LAN Administrator

Tsanko Christov, LAN Administrator

Financial Department

Maria Georgieva, Accountant

Lazarina Andonova, Cashier/Bookkeeper

Technical Support

Dimitar Dimitrov

Boyko Tasev

Alyosha Purvanov





## General Assembly

<b>Alexander Stoyanov,</b>	Professor, Department of Economic Sociology, University of National and World Economy, Sofia, and Director of Research, Center for the Study of Democracy
<b>Andrey Ivanov,</b>	PhD, Human Development Advisor, RBEC, United Nations Development Programme (UNDP) – Bratislava
<b>Blagovest Georgiev,</b>	PhD, Professor, Department of Sociology, Sofia University
<b>Emil Tsenkov,</b>	PhD, Director, Information Centre on the Council of Europe, Sofia
<b>Evgenii Dainov,</b>	PhD, Director, Centre for Social Practices
<b>Inko Razpopov,</b>	PhD, General Manager, Atlantic Agency
<b>George Prohasky,</b>	PhD, Co-Chairman, Center for Economic Development
<b>Mois Faion,</b>	PhD, Manager Financial Operations, Citizens Communications
<b>Ognian Shentov,</b>	PhD, Chairman, Center for the Study of Democracy
<b>Tihomir Bezlov,</b>	Senior Analyst, Vitosha Research
<b>Vladimir Yordanov,</b>	Executive Director, Center for the Study of Democracy

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# Sources of Support and Cooperation

Albanian Center for Economic Research  
American Bar Association's Central European and Eurasian Law Initiative  
Bulgarisches Forschungsinstitut in Österreich  
Center for Economic Development, Bratislava  
Center for European Reform, London  
Center for International Private Enterprise, Washington DC  
Center for Liberal-Democratic Studies, Belgrade  
Center for Policy Studies, Belgrade  
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CERGE-EI, Prague  
Council of Europe  
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European Monitoring Centre on Racism and Xenophobia  
European Ombudsman  
European Parliament  
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Heritage Foundation  
Home Office, UK  
InterMedia Survey Institute, Washington DC  
International Development Law Organization, Rome  
London School of Economics and Political Science  
Max-Planck-Institut für Ausländisches und Internationales Privatrecht, Hamburg  
Ministry of Defense of Bulgaria  
Ministry of Economy and Energy of Bulgaria  
Ministry of Foreign Affairs of Bulgaria  
Ministry of Interior of Bulgaria  
Ministry of Justice of Bulgaria  
NATO – Public Diplomacy Division  
Ombudsman of Greece  
Ombudsman of the Republic of Bulgaria  
Open Society Justice Initiative  
Princeton Research Associates  
Sabre Foundation  
Saferworld, UK  
SEESAC (South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons)  
Stiftung Wissenschaft und Politik, Berlin  
Turkish Democracy Foundation

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United Nations Development Programme  
United Nations Office on Drugs and Crime  
United States Agency for International Development  
United States Department of Justice  
United States Department of State  
World Bank

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## **Part Three**

### **Financial Review**





CENTER FOR  
THE STUDY OF  
DEMOCRACY

**Center for the Study of Democracy**  
**Consolidated Financial Statements for the year ended 31 December 2005**  
**With Independent Auditors' Report Thereon**



## Independent Auditors' Report

To the General Assembly of  
Center for the Study of Democracy

Sofia, 5 June 2006

We have audited the accompanying consolidated balance sheet of Center for the Study of Democracy ("the Organization") as of 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Center for the Study of Democracy as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev  
Partner

KPMG Bulgaria OOD  
37 Fridtjof Nansen Str.  
1142 Sofia  
Bulgaria

## Consolidated income statement

For the year ended 31 December 2005

<i>In BGN</i>	Note	2005	2004
Revenue	2	3,200,670	2,510,851
Cost of sales	3	<u>(2,990,013)</u>	<u>(2,290,655)</u>
<b>Gross profit</b>		210,657	220,196
Other operating income		299	300
Administrative expenses	4	(189,493)	(141,041)
Impairment losses	5	<u>(11,225)</u>	<u>-</u>
<b>Operating profit before financing costs</b>		10,238	79,455
Financial income		125,752	107,548
Financial expenses		<u>(30,141)</u>	<u>(159,123)</u>
<b>Net financing costs</b>	6	95,611	(51,575)
<b>Profit before tax</b>		105,849	27,880
Income tax expense	7	(23,179)	(13,213)
<b>Profit for the period</b>		<u><u>82,670</u></u>	<u><u>14,667</u></u>

The consolidated income statement of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.



## Consolidated balance sheet

As at 31 December 2005

<i>In BGN</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>			
Property, plant and equipment	8	1,657,616	2,008,733
Intangible assets	9	8,760	3,336
Investments	11	-	5,006
Deferred tax assets	12	8,432	6,280
<b>Total non-current assets</b>		<u>1,674,808</u>	<u>2,023,355</u>
<b>Current assets</b>			
Inventories		253	236
Trade and other receivables	13	541,539	179,826
Cash and cash equivalents	14	930,327	1,064,520
Deferred expenses	15	42,839	40,081
Assets classified as held for sale	10	205,423	-
<b>Total current assets</b>		<u>1,720,381</u>	<u>1,284,663</u>
<b>Total assets</b>		<u><u>3,395,189</u></u>	<u><u>3,308,018</u></u>
<b>Equity</b>			
		3,106,161	3,023,491
<b>Liabilities</b>			
Deferred tax liabilities	12	4,797	2,580
<b>Total non-current liabilities</b>		<u>4,797</u>	<u>2,580</u>
<b>Current liabilities</b>			
Trade and other payables	16	103,209	83,951
Deferred financing	17	113,364	175,826
Tax payables		67,658	22,170
<b>Total current liabilities</b>		<u>284,231</u>	<u>281,947</u>
<b>Total liabilities</b>		<u>289,028</u>	<u>284,527</u>
<b>Total equity and liabilities</b>		<u><u>3,395,189</u></u>	<u><u>3,308,018</u></u>

The consolidated balance sheet of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

 30 April 2006  
Vladimir Yordanov

*Executive Director*

## Consolidated statement of changes in equity

### For the year ended 31 December 2005

<i>In BGN</i>	<b>Retained earnings</b>
Balance as at 1 January 2004	3,008,824
Recognised profit for 2004	14,667
Balance as at 31 December 2004	<u>3,023,491</u>
Balance as at 1 January 2005	3,023,491
Recognised profit for 2005	82,670
Balance as at 31 December 2005	<u>3,106,161</u>

The consolidated statement of changes in equity of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

## Consolidated statement of cash flows

For the year ended 31 December 2005

<i>In BGN</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
<b>Cash flows from operati activities</b>			
Cash receipts from customers / donors		1,657,511	2,316,474
Cash paid to suppliers and employees		(1,971,928)	(2,803,293)
VAT refunded / (paid)		(124,227)	146,040
Cash receipts / (payments) from other operating activities		<u>73,252</u>	<u>(224,006)</u>
Cash generated from operations		(365,392)	(564,785)
Interest paid		(5,267)	(5,033)
Income taxes paid		<u>(9,359)</u>	<u>(29,820)</u>
<b>Net cash from operating activities</b>		<u>(380,018)</u>	<u>(599,638)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		267,128	-
Proceeds from sale of equity investments		5,000	-
Acquisition of property, plant and equipment		(40,225)	(501,600)
Interest received		13,922	40,958
Proceeds from sale of investments held-to-maturity		<u>-</u>	<u>588,862</u>
<b>Net cash from investing activities</b>		<u>245,825</u>	<u>128,220</u>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		<u>-</u>	<u>(5,018)</u>
<b>Net cash from financing activities</b>		<u>-</u>	<u>(5,018)</u>
Net increase / (decrease) in cash and cash equivalents		(134,193)	(476,436)
Cash and cash equivalents at 1 January		<u>1,064,520</u>	<u>1,540,956</u>
<b>Cash and cash equivalents at 31 December</b>	<b>14</b>	<u><u>930,327</u></u>	<u><u>1,064,520</u></u>

The consolidated statement of cash flows of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

## **Notes to the consolidated financial statements**

### **Legal status**

The Center for the Study of Democracy (the "Organisation") is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2005 comprise the Organisation and its subsidiaries Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for 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 organisation fostering the reform process in Bulgaria through impact on policy and civil society. CSD objectives are:

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

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

The control of the Center for the Study of Democracy over the activities of Agency Vitosha EOOD has ceased in 2004 and the Center sold its investment in 2005. Therefore, Agency Vitosha EOOD is not included in the consolidation.

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 purchase, sale and rent of real estate property, project management and others.

The consolidated financial statements were authorised for issue by the directors on 30 April 2006.

## **Significant accounting policies**

### **(a) Statement of compliance**

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) Commission. IAS 8 "Accounting policies, changes in accounting estimates and errors" requires the Group to disclose the fact that it has not applied standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Group has disclosed the effects from application of published IFRS that are not effective as at the balance sheet date but may have an effect on the Group's activities (see note 22).

### **(b) Basis of preparation**

The consolidated financial statements are presented in BGN.

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

### **(c) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Organisation. Control exists when the Organisation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### **(ii) Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(d) Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The BNB official closing exchange rate of the USD as at 31 December 2005 is 1.6579 BGN/USD and as at 31 December 2004 is 1.43589. The average exchange rate for the year 2005 is 1.57482 BGN/USD. The official closing rate as at December 2005 of the EUR is 1.95583.

**(e) Property, plant and equipment**

**(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

**(ii) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

**(iii) Subsequent costs**

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

**(iv) Depreciation**

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 25 years
- plant and equipment 4 - 5 years
- fixtures and fittings 2 - 7 years
- vehicles 7 years

The residual value, if not insignificant, is reassessed annually.

**(f) Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

**(i) Subsequent expenditure**

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

**(ii) Amortisation**

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. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software 4 - 5 years

**(g) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses (see accounting policy j).

**(h) Inventories**

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

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits.

**(j) Impairment**

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

**(j) Impairment (continued)**

**(i) Calculation of recoverable amount**

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(k) Trade and other payables**

Trade and other payables are stated cost.

**(l) Revenue**

**(i) Goods sold and services rendered**

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

**(ii) Revenue from grants and contributions**

Revenue is recognized in the income statement on the basis of completed stage as reported by the Center for the Study of Democracy to the commissioning bodies. Revenue is recognised as income for the period to match the related costs on a systematic basis. Project contracts are denominated in foreign currency, while the related expenses are incurred in BGN.



**(ii) Revenue from grants and contributions (continued)**

The revenue of the Center for the Study of Democracy consists of funds extended by international financing bodies for the completion of accepted projects. The amounts are carried in the balance sheet as deferred revenue at their historic values. Every project is commenced with a signing of a contract where the financing body determines the budget, payment instalments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency.

Reports are prepared as contracted with financing bodies. Respective amount of BGN expenses are translated at the specified rate and an expense report in foreign currency is produced. It is used to report on the progress of the project before the financing organisation. Frequency is determined in the contract for the project assignment.

**(m) Expenses**

**(i) Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement .

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

**(n) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

**(n) Income tax (continued)**

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

CSD is a not-for-profit organization. No corporate income tax is levied for not-for-profit activities in accordance with current Bulgarian legislation.

**(o) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**(p) Non-current assets held for sale and discontinued operations**

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even for assets measured at fair value, as are gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

## Notes to the consolidated financial statements

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## **Notes to the consolidated financial statements**

### **(1) Segment reporting**

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### **Business segments**

The Group comprises the following main business segments:

- Non-profit activities. Provision of an enhanced institutional and policy capacity for a successful European Integration process; promotion of institutional reform and the practical implementation of democratic values in legal and economic practice; monitoring public attitudes and the institutional reform process in Bulgaria.
- Trading activities related to social and economic research, social assessment and evaluation studies;
- Trading activities related to purchase, sale and rent of real estate property and project management.

**1. Segment reporting (continued)**  
**Business segments**

	Note	Non-profit activities			Trading activities and economic research			Trading activities related to real estate property			Eliminations			Consolidated		
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
<i>In BGN</i>																
Revenue from:	2															
grants and contributions		1,157,370	1,980,583	-	-	-	-	-	-	-	-	-	-	-	1,157,370	1,980,583
sale of services		-	-	364,731	405,645	126,554	68,371	-	-	-	-	-	-	-	491,285	474,016
sale of property, plant and equipment		-	-	-	-	1,508,679	-	-	-	-	-	-	-	-	1,508,679	-
financing for fixed assets		43,336	56,252	-	-	-	-	-	-	-	-	-	-	-	43,336	56,252
Total revenue		1,200,706	2,036,835	364,731	405,645	1,635,233	68,371	-	-	-	-	-	-	-	3,200,670	2,510,851
Inter-segment revenue		-	-	-	-	50,350	38,880	-	-	(50,350)	-	-	(38,880)	-	-	-
Total revenue		1,200,706	2,036,835	364,731	405,645	1,685,583	107,251	-	-	(50,350)	-	-	(38,880)	-	3,200,670	2,510,851
Expenses on grants and contributions	3(a)	(1,176,304)	(1,870,563)	-	-	-	-	-	-	50,350	-	-	38,880	(1,125,954)	(1,831,683)	
Operating expenses related to trading activities	3(b)	-	-	(317,906)	(340,792)	(1,546,153)	(118,180)	-	-	-	-	-	-	(1,864,059)	(458,972)	
Cost of sales	3	(1,176,304)	(1,870,563)	(317,906)	(340,792)	(1,546,153)	(118,180)	-	-	50,350	-	-	38,880	(2,990,013)	(2,290,655)	
Other income		299	300	-	-	-	-	-	-	-	-	-	-	299	300	
Administrative expenses	4	(189,896)	(141,041)	-	-	-	-	-	-	403	-	-	-	(189,493)	(141,041)	
Impairment losses		-	-	(11,225)	-	-	-	-	-	-	-	-	-	(11,225)	-	
Gross profit		(165,195)	25,531	35,600	64,853	139,430	(10,929)	-	-	403	-	-	-	10,238	79,455	
Net financing income/(costs)	6	114,231	(176,232)	1,261	(7,810)	(19,881)	132,467	-	-	-	-	-	-	95,611	(51,575)	
Profit before tax		(50,964)	(150,701)	36,861	57,043	119,549	121,538	-	-	403	-	-	-	105,849	27,880	
Income tax expense		-	(3,390)	(5,531)	(10,991)	(14,722)	(15,630)	-	-	(2,926)	-	-	-	16,798	(23,179)	
Profit for the period		(50,964)	(154,091)	31,330	46,052	104,827	105,908	-	-	(2,523)	-	-	-	16,798	82,670	
Total assets		2,950,414	3,111,504	243,938	209,234	2,053,070	1,486,080	-	-	(1,758,386)	-	-	-	1,498,803	3,308,018	
Total liabilities		349,432	459,559	30,760	27,386	927,771	1,316,860	-	-	(1,019,293)	-	-	-	288,670	284,527	
Cash flows from operating activities		(389,715)	(432,490)	24,968	56,929	(15,271)	(224,077)	-	-	-	-	-	-	(380,018)	(599,638)	
Cash flows from investing activities		3,970	602,227	(7,094)	(11,238)	248,949	(462,769)	-	-	-	-	-	-	245,825	128,220	
Cash flows from financing activities		230,000	(839,051)	-	(5,018)	(230,000)	839,051	-	-	-	-	-	-	-	(5,018)	

## Notes to the consolidated financial statements

### 2. Revenue

<i>In BGN</i>	2005	2004
<b>Revenue from grants, contributions and projects</b>		
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	362,898	239,107
USAID/DPK Consulting – Coalition 2000 Anti-Corruption Program	157,125	1,045,552
Council of Europe – Information Centre on the Council of Europe	126,791	132,996
British Embassy – Establishment of a National Crime Prevention Council	84,912	-
British Embassy – Local Ombudsman: a new mechanism for human rights protection and good governance	77,699	14,312
European Community – Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	64,597	-
British Embassy – Establishment and Promotion of Specialised Healthcare Ombudsman in Bulgaria with the purpose of tackling corruption in the Healthcare Service	57,144	-
CIPE – Democratic Governance in Bulgaria – Using Public-Private Partnerships to Advance Economic Reforms	46,689	-
Norway Embassy – Security Perceptions and Doctrinal Approaches – Designing and Implementing Security Strategies	29,337	-
Open Society Institute, New York – Ethnic Discrimination	29,224	-
Japan Foundation – The Perspectives for Security and Stability in Southeast Europe	25,074	-
IBRD – Global Development Learning Network	21,665	-
UNDP – Gun Culture	16,054	-
Saferworld UK – Survey of the small arms and light weapons	14,785	-
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces – Phase III	-	191,720
British Embassy – Trafficking and Corruption in Bulgaria	-	104,633
CIPE – Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	-	73,752
Other projects	43,376	178,511
	<u>1,157,370</u>	<u>1,980,583</u>
Revenue from sales of property, plant and equipment	1,508,679	-
Revenue from sales of services	491,285	474,016
Income from financing for fixed assets	43,336	56,252
	<u><u>3,200,670</u></u>	<u><u>2,510,851</u></u>

**3. Cost of sales**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Net book value of property, plant and equipment sold	1,343,571	-
Hired services	989,077	1,216,326
Salaries and benefits	168,180	189,501
Depreciation	96,638	90,971
Supplies and consumables	42,127	90,448
Other expenses	350,420	703,409
	<u>2,990,013</u>	<u>2,290,655</u>

**a) Expenses on grants, contributions and projects**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Hired services	583,774	886,990
Salaries and benefits	128,379	141,081
Depreciation	43,336	46,067
Supplies and consumables	34,051	72,010
Other expenses	336,414	685,535
	<u>1,125,954</u>	<u>1,831,683</u>

**b) Expenses related to trading activities**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Net book value of property, plant and equipment sold	1,343,571	-
Hired services	405,303	329,336
Salaries and benefits	39,801	48,420
Depreciation	53,302	44,904
Supplies and consumables	8,076	18,438
Other expenses	14,006	17,874
	<u>1,864,059</u>	<u>458,972</u>

**4. Administrative expenses**

<i>In BGN</i>	2005	2004
Hired services	153,668	108,809
Salaries and benefits	5,738	227
Depreciation	18,812	25,996
Supplies and consumables	7,563	5,454
Other expenses	3,712	555
	<u>189,493</u>	<u>141,041</u>

**5. Impairment losses**

<i>In BGN</i>	2005	2004
Impairment losses on trade receivables	11,225	-
	<u>11,225</u>	<u>-</u>

**6. Net financing costs**

<i>In BGN</i>	2005	2004
Interest income	14,749	9,460
Interest expense	(839)	(3,070)
Foreign exchange gains	111,003	80,705
Foreign exchange losses	(23,439)	(151,022)
Income for dealing with investments held-to-maturity	-	17,383
Other financial expenses	(5,863)	(5,031)
	<u>95,611</u>	<u>(51,575)</u>



## 7. Income tax expense

### Recognised in the income statement

<i>In BGN</i>	2005	2004
<i>Current tax expense</i>		
Corporate tax	(23,114)	(17,898)
<i>Deferred tax expense</i>		
Origination and reversal of temporary tax differences	(65)	4,458
Reduction in tax rate	-	227
	(65)	4,685
<b>Total income tax equipment</b>	<u>(23,179)</u>	<u>(13,213)</u>

## 8. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Assets under construction	Total
<b>Cost</b>							
Balance at 1 January 2005	1,571,765	207,427	228,056	95,222	2,304	347,133	2,451,907
Acquisitions	1,287,056	16,265	-	6,991	-	-	1,310,312
Disposals	(1,392,705)	-	-	(6,375)	-	-	(1,399,080)
Transfers to assets held for sale	(205,423)	-	-	-	-	-	(205,423)
Balance at 31 December 2005	<u>1,260,693</u>	<u>223,692</u>	<u>228,056</u>	<u>95,838</u>	<u>2,304</u>	<u>347,133</u>	<u>2,157,716</u>
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2005	54,749	140,158	164,923	71,588	547	11,210	443,175
Depreciation charge for the year	41,256	44,170	20,477	7,135	346	-	113,384
Disposals	(56,220)	-	-	(239)	-	-	(56,459)
Balance at 31 December 2005	<u>39,785</u>	<u>184,328</u>	<u>185,400</u>	<u>78,484</u>	<u>893</u>	<u>11,210</u>	<u>500,100</u>
<b>Carrying amount</b>							
At 1 January 2005	<u>1,550,690</u>	<u>30,338</u>	<u>63,133</u>	<u>26,892</u>	<u>1,757</u>	<u>335,923</u>	<u>2,008,733</u>
At 31 December 2005	<u>1,220,908</u>	<u>39,364</u>	<u>42,656</u>	<u>17,354</u>	<u>1,411</u>	<u>335,923</u>	<u>1,657,616</u>

## 9. Intangible assets

<i>In BGN</i>	<b>Software</b>	<b>Patents and licenses</b>	<b>Other</b>	<b>Total</b>
<i>Cost</i>				
Balance at 1 January 2005	14,422	412	590	15,424
Acquisitions	7,490	-	-	7,490
Balance at 31 December 2005	<u>21,912</u>	<u>412</u>	<u>590</u>	<u>22,914</u>
<i>Amortisation and impairment losses</i>				
Balance at 1 January 2005	11,533	412	143	12,088
Amortisation charge for the year	1,948	-	118	2,066
Balance at 31 December 2005	<u>13,481</u>	<u>412</u>	<u>261</u>	<u>14,154</u>
<i>Carrying amount</i>				
At 1 January 2005	2,889	-	447	3,336
At 31 December 2005	<u>8,431</u>	<u>-</u>	<u>329</u>	<u>8,760</u>

## 10. Assets held for sale

As at 31 December 2005 the carrying amount of the assets held for sale is BGN 205,423. Apartments are presented as assets held for sale following the commitment of the Group's management to a plan to sell the apartments. As at the date of the issuance of these consolidated financial statements the apartments have been sold for the amount of BGN 210,000.

## 11. Investments

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Agency Vitosha EOOD	-	5,006

In execution of the decision of the Center's General Assembly of 2 December 2004 to sell Agency Vitosha EOOD, management of the Center has transferred its control to Vitosha FM EOOD. Due to the fact that some legally required permissions from the Communications Regulation Commission and the Council on Electronic Media had to be obtained prior to the transaction, the later was closed in April 2005.

## 12. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2005 and 31 December 2004 are attributable to the following balance sheet items:

<i>In BGN</i>	31 December 2005		31 December 2004		31 December 2005	31 December 2004
	Assets	Liabilities	Assets	Liabilities	Net amount	Net amount
Property, plant and equipment	-	(2,696)	2,905	(1,795)	2,696	1,110
Trade receivables	-	(1,403)	-	(785)	(1,403)	(785)
Deferred expenses	3,283	-	-	-	3,283	-
Trade payables	5,149	(698)	3,375	-	4,451	3,375
<i>Net tax assets/(liabilities)</i>	<u>8,432</u>	<u>(4,797)</u>	<u>6,280</u>	<u>(2,580)</u>	<u>3,635</u>	<u>3,700</u>

### *Movement in deferred tax during the year*

<i>In BGN</i>	Balance as at 31 December 2004	Recognised in the income statement	Recognised in equity	Balance as at 31 December 2005
Property, plant and equipment	1,110	(3,806)	-	(2,696)
Trade receivables	(785)	(618)	-	(1,403)
Deferred expenses	-	3,283	-	3,283
Trade payables	3,375	1,076	-	4,451
Deferred tax assets/(liabilities)	<u>3,700</u>	<u>(65)</u>	<u>-</u>	<u>3,635</u>

The tax rate used for calculation of the deferred tax for 2005 is the rate defined by the Corporate Income Tax Act, which is 15% in force from 1 January 2006. At 31 December 2004 the deferred tax assets and liabilities were calculated using the tax rate for 2005 of 15%.

## 13. Trade and other receivables

<i>In BGN</i>	2005	2004
Completed projects	447,767	132,689
Trade receivables	72,414	25,434
Impairment losses	(11,225)	-
Tax receivables	5,543	5,394
Other	27,040	16,309
	<u>541,539</u>	<u>179,826</u>

**14. Cash and cash equivalents**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
In local currency	190,022	229,540
In foreign currency	180,226	359,824
Deposits in foreign currency	<u>427,050</u>	<u>430,916</u>
<b>At bank</b>	797,298	1,020,280
In local currency	129,229	32,193
In foreign currency	<u>3,800</u>	<u>12,047</u>
<b>In hand</b>	<u>133,029</u>	<u>44,240</u>
	<u><u>930,327</u></u>	<u><u>1,064,520</u></u>

**15. Deferred expenses**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
European Community – Regional Innovation Strategy	28,736	-
Open Society Institute, New York – Ethnic Discrimination	7,306	-
UNDP – Gun Culture	4,019	-
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	37,425
ACCESS Foundation – Internship Program for Roma Minority in Mass Media	-	1,000
	<u>40,061</u>	<u>38,425</u>
Insurances and others related to trading activities	<u>2,778</u>	<u>1,656</u>
	<u><u>42,839</u></u>	<u><u>40,081</u></u>

Since revenue and expenses on projects are matched on a yearly basis to conform with the accruals principle, deferred expenses consisting of expenses incurred on projects or stage that have not been completed.

**16. Trade and other payables**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Trade payables	49,854	59,398
Salaries, benefits and social security payable	42,334	23,935
Other payables	11,021	618
	<u>103,209</u>	<u>83,951</u>

**17. Deferred financing**

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
European Community – Regional Innovation Strategy	32,453	-
Global Governance, Regionalisation and Regulation: The Role of the EU – GARNET	34,114	-
Open Society – Ethnic Discrimination	2,262	
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	19,364
British Embassy – Local Ombudsman: A New Mechanism for Human Rights Protection and Good Governance	-	20,875
ACCESS Foundation – Internship Program for Roma Minority in Mass Media	-	3,129
European Commission – Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	-	59,003
Deferred financing for project activities	<u>68,829</u>	<u>102,371</u>
Deferred financing for fixed assets	<u>44,535</u>	<u>73,455</u>
	<u>113,364</u>	<u>175,826</u>

## 18. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

### *Foreign exchange risk*

The Group is exposed to foreign currency risk on grants received from donors that are denominated in a currency other than BGN. The currencies giving rise to this risk are primarily U.S. Dollars and Pounds Sterling.

In respect of monetary assets and liabilities held in currencies other than BGN, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

### *Interest rate risk*

During the reporting period the Group has not been exposed to interest rate risk.

### *Effective interest rates and re-pricing analysis*

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

<i>In thousands of BGN</i>	<b>Note</b>	<b>Effective interest rate</b>	<b>Total</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>
Cash at bank	<b>14</b>	0,1 -0,2%	370,248	370,248	-	-	-
Deposits at bank in foreign currency	<b>14</b>	2.5-3%	427,050	427,050	-	-	-
			797,298	797,298	-	-	-

### *Credit risk*

Management has a credit policy in place and the exposure to credit risk is monitored on a monthly basis. Credit evaluations are performed on all donors requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk.

## 19. Related parties

The Group has related party relationships with ARC Fund and Bulgaria Online. During the year, the following transactions have taken place:

<b>Related party</b>	<b>Relation</b>	<b>Transactions during the year</b>	<b>Balance as at 31 December 2005</b>
ARC Fund	40% Management control	Partner organisation within Coalition 2000 Initiative – USD 46,338 equivalent to BGN 72,974	11,581
Bulgaria Online	Subsidiary of ARC Fund	Internet services provided – BGN 8,461	6,140

## Transactions with directors and executive officers

The Group is a related party with its executive director and management board.

The total amount of the paid remunerations, honoraria and social securities, included in salaries and benefits and expenses for hired services is as follows:

<i>In BGN</i>	<b>2005</b>	<b>2004</b>
Management Board	93,164	183,307

## 20. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

## 21. Subsequent events

There are no significant subsequent events that would require adjustment or disclosure in the consolidated financial statements.

## 22. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities

*Amendment to IAS 1 "Presentation of Financial Statements" – requirement for additional capital disclosures:*

The amendment in IAS 1 "Presentation of Financial Statements" regarding disclosures of changes in each item of equity, resulting from the requirements of the Standard, does not affect the presentation of the Statement of changes in equity which reflect total net profit for the period as well as those revenues/expenses which are directly presented at the account of the capital considering the requirements of other IFRS.

*Standards, interpretations and amendments to published International Financial Reporting Standards that are not effective as at the balance sheet date:*

The following published standards and interpretations are not effective as at the balance sheet date which, following an analysis, the Group considers do not affect these financial statements or are inapplicable considering the Group activities:

- FRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006) – the standard is irrelevant to the Group activities;
- IFRS 7 "Financial Instruments: Disclosures" – effective from 1 January 2007;
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006) – the amendments are irrelevant to the Group activities, also considering the fact that the Group does not prepare its financial statements under the IFRS 1;
- Amendment to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" (effective from 1 January 2006) – the Group does not have defined benefit plans which would be affected by this amendment;
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (effective from 1 January 2006);
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts" (effective from 1 January 2006) – the Group considers issued financial guarantees as contingent liabilities until a guarantee payments opportunity appears and recognises a provision in case the requirements of IAS 37 regarding fair value are met;
- Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation" (effective from 1 January 2006);



**22. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities (continued)**

- IFRIC 4 “Determining whether an Arrangement contains a Lease” (effective from 1 January 2006) – irrelevant to the Group activities;
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” (effective from 1 January 2006) – the interpretation is irrelevant with regard to the Group activities;
- IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment” (effective from 1 December 2005) – the interpretation is irrelevant with regard to the Group activities;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” (effective from 1 March 2006) – irrelevant to the Group;
- IFRIC 8 Scope of IFRS 2 (effective from 1 May 2006) – irrelevant to the Group;
- IFRIC 9 “Reassessment of Embedded Derivatives” (effective from 1 June 2006) – irrelevant to the Group.



