

CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 2006



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
2006 ANNUAL REPORT**



Drawing: Anri Koulev

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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

A critical year for Bulgaria's EU membership, 2006 was also a period of intense public and political debate on the issues at the core of the agenda of the Center for the Study of Democracy (CSD) – justice and home affairs (JHA) reform.

CSD's impact in this respect was achieved mainly in **shaping the policy agenda** by making a substantial contribution to the drafting of the government's 2006-2008 anti-corruption strategy. CSD participation in the drafting was one of the key components of its institutional support to the Commission for the Prevention and Counteraction of Corruption (CPCC) of the Bulgarian government established in early 2006. The *Strategy for Transparent Governance and for Prevention and Counteraction of Corruption for the Period 2006-2008* and the *Program for the Implementation of the Strategy for 2006* reflect the key issues advocated by CSD:

- **political corruption** is one of the key areas of concern in the new strategy. Some of the policies which the government is undertaking, following CSD's recommendations, relate to the income and assets of high level governmental officials.
- as regards particularly vulnerable areas of the economy, the strategy prioritizes anti-corruption measures related to **VAT fraud and the grey economy**.
- **monitoring and evaluation** of the strategy implementation are also prioritized. The system of indicators, developed by CSD for the monitoring of the delivery of the strategy policies, provide a comprehensive feedback instrument not just for government but for all anti-corruption stakeholders.

CSD was also a major resource institution as regards the other JHA aspects – crime and judicial reform. The Bulgarian **National Crime Survey** (NCS), modeled on the British Crime Survey and introduced by CSD, has been supplying information on the victims of crime in comparison to official police statistics. The NCS was also one of the main instruments of the National Crime Prevention Commission, an institution established with the support of CSD.

In 2006, CSD also contributed to reinforcing **criminal justice in border districts** by identifying the existing problems and propose relevant solutions as regards the law enforcement and administration of justice on trans-border crime. Also, **business registration reform** – making the registration of legal entities an administrative, rather than a judicial procedure – which was initiated and advocated by CSD entered a new stage in 2006 following the adoption of the respective legislation.

The **national ombudsman**, whose introduction in Bulgaria is among the success stories of the Center, started to practically perform his activities in 2006. During its first full year of operation the ombudsman relied strongly on the support from CSD

which provided various types of assistance: from awareness, capacity building and training activities to facilitating the international relations and cooperation of the ombudsman with similar institutions from other countries.

The centrality of the JHA in the agenda of the 2004 and 2007 EU enlargements is making its impact on the level of effort devoted to them by the European Commission. Increasing attention is being paid to the development of indicators for evaluating progress in this area. CSD, having developed and applied its Corruption Monitoring System for almost 10 years now, is well equipped to contribute to the capacity of anti-corruption monitoring at the European level. The Center's network of academic and research partners in the Union is a resource that would be increasingly utilized by the EU institutions advancing the JHA agenda.



Sofia, May 2007

Dr. Ognian Shentov
CSD Chairman

Part One

Program Reviews

Law Program

The major areas of activities of the Law Program in the year 2006 were the institutional and legal reform in Bulgaria. In particular, the efforts focused on judicial reform, including the reinforcement of criminal justice, the countering of corruption and organized crime, the introduction of modern commercial registration, and the law enforcement and administration of justice in border districts. The Law Program continued to support the national and local ombudsmen by implementing a variety of activities for promoting and strengthening these institutions. The new challenge in the work of the Law Program in 2006 was the monitoring of racism and xenophobia in the country, done on behalf of the European Monitoring Centre on Racism and Xenophobia.

2006 Highlights

- Building upon its considerable track record in the field of judicial reform the Law Program focused its efforts on reinforcing criminal justice in border districts. The initiative is aimed to identify the existing problems and propose relevant solutions as regards the law enforcement and administration of justice on trans-border crime. Other important issues addressed by the Law Program through the year included the reform of criminal procedure and the integration of criminal and economic policies against organized crime and corruption.
- The business registration reform initiated and advocated for by the Law Program, entered a new stage following the adoption of the Law on the Commercial Register. The new law, which was developed with the active participation of experts of the Law Program and should enter into force in July 2007, has created the necessary legislative basis for reform. Nevertheless, the Law Program is committed to continue its efforts during the next stages of the process up until the practical establishment of the central electronic commercial register.
- The national ombudsman institution, whose introduction in Bulgaria is among the success stories of the Law Program, started to practically perform its activities in 2006. During its first full year of operation the ombudsman relied strongly on the support of the Law Program, which provided various types of assistance: from awareness, capacity building and training activities to facilitating the international relations and cooperation of the ombudsman with similar institutions from other countries.
- Initially promoted and supported by CSD, the establishment of local ombudsmen (public mediators) marked further progress in 2006. By the end of the year, 15 municipalities had already elected their local ombudsmen. The Law Program continued to provide assistance to the operating local ombudsmen and to the municipal authorities working to establish the institution. An important step forward in this respect was the renewal of the idea,

initially proposed by the Law Program a few years ago, to establish a local ombudsmen association.

- For the first time in 2006 the Law Program operated the National Focal Point for Bulgaria of the European Monitoring Centre on Racism and Xenophobia (EUMC). As a National Focal Point the Law Program had specific responsibilities mainly related to the collection of data on racism and xenophobia and their submission to the EUMC headquarters in Vienna as well as by popularizing the work of the EUMC among the relevant stakeholders in Bulgaria.

I. Legislative and Judicial Reform

1. Judicial Reform

Criminal Justice Reform

The reform of criminal justice, a key EU accession requirement for Bulgaria, is still a major challenge in the framework of judicial reform in the country. The adoption of the new Criminal Procedure Code and the new Law on the Ministry of Interior created the legislative basis for the reforms, but their practical implementation, which started in 2006, still needs to be improved.

To facilitate the process on June 6, 2006, CSD Law Program in cooperation with the Ministry of Interior held a public discussion "Criminal Justice in the Context of Bulgaria's EU Accession: Problems with the Application of the New Criminal Procedure Code and the Law on the Ministry of Interior." The event brought together magistrates, governmental officials, representatives of NGOs and the media to share their initial observations on the implementation of the new legislation and outline some of the problems that need to be addressed. The excessive workload of the investigating police officers and the supervising prosecutors, the need of reconsidering the criteria for appointment of the investigating police officers (including the abolishment of the requirement for university degree or

university degree in law), enhancement of the preventive role of pre-trial proceedings, broadening the powers of the National Investigation Service to include the investigation of crimes committed by minors and those related to the high level political corruption, introducing a definition of "detected crime", etc. were amongst the topics in the discussion. The problems in both the pre-trial phase and the court procedure, upstanding a month before the entry in force of the new legislation, were presented during the discussion. Among the speakers were Mr. Vasil Stoichev from the National Police Service, Mr. Mladen Chervenjakov, Member of Parliament from the Coalition for Bulgaria, Mr. Rumen Georgiev, Deputy Director of the National Investigation Service, Mr. Asen Arsov, Head of Division in the Supreme Prosecution Office of Cassation, Mr. Rumen Nenkov, Deputy Chair of the Supreme Court of Cassation, etc.

Bridging Criminal and Economic Policies against Organized Crime and Corruption

Organized crime and corruption are no longer simply a criminal matter. They have been penetrating countries and communities globally, undermining the legal economy and government institutions. The divergence of criminal justice systems worldwide, however, is in the way of deeper cooperation. Consequently, it needs to be complemented



During the public discussion on the criminal justice reform (from left to right): CSD Chairman Dr. Ognian Shentov, Minister of Interior Mr. Rumen Petkov, Deputy-Minister of Interior Mr. Rumen Andreev, and Mr. Asen Arsov, Head of Division in the Supreme Prosecution Office of Cassation

by policies where collaboration is more forthcoming like the economic policies, which are particularly relevant in the context of EU enlargement and its stabilization effect on other regions.

Against this background, on June 23-24, 2006, CSD Law Program held an international conference "Corruption and Organized Crime: Bridging Criminal and Economic Policies" aimed at reviewing the range of effective policy instruments and proposing integrated solutions to governments, international institutions and the civil society. The conference brought together academics and practitioners, public and private sector experts, policy makers and researchers to advance the international and regional policy agenda against organized crime and corruption. Among the participants at the event were Mr. George Hardy of the US Department of Justice, Mr. Mahmut Cengiz, Chief Inspector at the Turkish National Police, Dr. Paul Larsson, Associate Professor at the Police University College of Oslo, Prof. Petrus van Duyne and Prof. Jan van Dijk from the University of Tilburg,

Mr. Ger Homburg from Regioplan (the Netherlands), Ms. Kristin Hölte from the Free University of Berlin, Vincenzo Ruggiero from Middlesex University, London, Dr. Jens Andvig from the Norwegian Institute for International Affairs, Mr. Brian Donald from UK' Serious Organised Crime Agency (SOCA), Dr. Dina Siegel from the Faculty of Law, Vrije Universiteit – Amsterdam, Mr. Hugo Brady, Research Fellow at the Centre for European Reform, UK and the experts from CSD Dr. Konstantin Pashev, Mr. Tihomir Bezlov, Mr. Philip Gunev and Mr. Assen Dylulgerov.

Raising Awareness on the Eve of EU Accession

In the light of the upcoming accession of Bulgaria to the EU the Law Program launched a series of public events to raise the awareness on the recent developments and pending issues in the field of judicial reform and the fight against organized crime and corruption.



During the discussions at the international conference on bridging criminal and economic policies against corruption and organized crime

Following up on the cooperation with the EU Member States' diplomatic missions in Bulgaria, on March 2, 2006, the Law Program held a discussion on judicial reform in Bulgaria. The objective of the event was to inform the diplomatic community on the progress of judicial reform in the country. The Deputy Chiefs of Mission of EU Member States and a representative of the Delegation of the European Commission to Bulgaria attended the event. The Law Program's Director Dr. Maria Yordanova and Project Coordinator Mr. Dimitar

Markov delivered a lecture *Judicial Reforms in Bulgaria on the Eve of EU Accession*. Among the most significant issues presented and discussed were the basic principles of the organization and functioning of the judiciary in Bulgaria; judicial and law enforcement bodies: the courts, the prosecution office, the investigating bodies within and outside the judiciary and the Supreme Judicial Council as well as the Constitutional Court and its decisions regarding the judiciary; the recently introduced reforms and the changes under discussion; the adopted and upcoming constitutional amendments regarding the judiciary; and the proposals for reforming judiciary developed by the Law Program experts during the last several years.

Reinforcing Criminal Justice in Border Districts

In April 2006, the Law Program launched an initiative aimed to counter corruption and reinforce criminal justice in the border districts with Turkey and Macedonia. The initiative's main objective is to contribute to improving the



During the discussion on judicial reform (from left to right): Mr. Dimitar Markov, Project Coordinator at the Law Program, Dr. Maria Yordanova, Director of the Law Program, and Mr. Lothar Jaschke, Deputy Chief of Mission of the Austrian Embassy

effectiveness of criminal justice as regards border related disputes by studying the problems of administration of justice in borderregion courts, formulating policy recommendations for improving the situation, implementing activities to enhance the capacity of the respective judicial bodies to more effectively prosecute and convict border related crime, and piloting the implementation of the recommended measures in selected courts. In addition, the project aims at identifying common problems in the area of border justice in Bulgaria, Turkey and Macedonia, facilitate the sharing of experience and information and improve the capacity of judicial bodies from the three countries to work together for achieving better results in the investigation and criminal justice on trans-border cases.

To increase the impact of the activities the Law Program involved some of the major stakeholders as partners in the initiative. The Ministry of Justice, the Supreme Judicial Council, the Supreme

Prosecution Office of Cassation, and the Bulgarian Judges Association are among the institutions officially involved in the implementation of the project.

The initiative was officially launched at a special press conference in the city of Haskovo on May 9, 2006 with the participation of Dr. Kim Howells, Minister of State, Foreign and Commonwealth Office, UK, the British Ambassador Mr. Jeremy Hill, Mr. Dimitar Bongalov, Deputy Minister of Justice of Bulgaria, the Prosecutor from the Supreme Prosecution Office of Cassation Mr. Vasil Mikov, Mr. Borislav Belazelkov, Justice at the Supreme Court of Cassation and Executive Secretary of the Bulgarian Judges Association, the Law Program Director Dr. Maria Yordanova, judges, prosecutors, investigators, and police and customs officials from Haskovo and Svilengrad. After the press conference a working meeting between the CSD project team and representatives from the local courts and prosecution offices was held to discuss the problems



During the opening seminar in Sofia (from left to right): Mr. Rumen Georgiev, Deputy Director of the National Investigation Service and Chair of the Chamber of Investigators in Bulgaria, Ms. Nelly Koutzkova, Chair of the Bulgarian Judges Association and Judge in the Sofia District Court, Mr. Dimitar Markov, Project Coordinator at the Law Program, and Dr. Vasil Kirov, Director of the Financial Intelligence Agency

encountered by the latter and the future cooperation with the CSD.

To help establish contacts and exchange of information on trans-border crime detection, investigation and punishment the Law Program organized working meetings of Bulgarian and Turkish magistrates. The meetings, held in the city of Haskovo on September 13-14, 2006, brought together judges and prosecutors from Edirne and Kırklareli, officials from the Turkish Ministry of Justice and the British Embassy in Ankara, Bulgarian magistrates (including the chairs of the Court of Appeal of Plovdiv, the district courts in Haskovo, Pazardzhik and Smolyan and the Military Court of Plovdiv as well as judges and prosecutors from Haskovo and Svilengrad), Law Program experts (Dr. Maria Yordanova, Mr. Dimitar Markov and Mr. Tihomir Bezlov) and the Bulgarian Judges Association Executive Secretary and Justice Borislav Belazelkov. The two plenary meetings were

complemented by team consultations between Bulgarian and Turkish judges and prosecutors respectively where the particular challenges related to trans-border crime and the way those can be addressed by the two branches of the judiciary were discussed. The closing meeting served to present the outcomes of the two-day talks and the agreements achieved on several points: to exchange regular information on judicial and legal reforms in both countries, to initiate relevant measures for speeding up information supply on cases of trans-border crime, to hold joint trainings and expert discussions on the most common types of trans-border crime (drugs and human trafficking, smuggling, etc.) for Bulgarian and Turkish judges, prosecutors, police and customs officers.

To study the situation and the problems of the administration of justice in border districts the Law Program experts developed a special needs assess-



During the border justice press conference (from left to right): Mr. Borislav Belazelkov, Justice at the Supreme Court of Cassation and Executive Secretary of the Bulgarian Judges Association, Mr. Vasil Mikov, Prosecutor from the Supreme Prosecution Office of Cassation, Mr. Dimitar Bongalov, Deputy Minister of Justice of Bulgaria, Dr. Maria Yordanova, Director of the Law Program, Dr. Kim Howells, Minister of State, Foreign and Commonwealth Office, UK, Ms. Kristina Terzieva, Interpreter, Mr. Jeremy Hill, British Ambassador



Bulgarian and Turkish magistrates during the first working meeting in Haskovo

ment and monitoring methodology. The methodology consists of several components the major one being the collection and analysis of official statistics, the carrying out of sociological research (focus groups and in-depth interviews), examination and analysis of laws and regulations, etc. In the course of implementing the methodology the Law Program collected statistical data from a number of institutions (such as courts, prosecution offices, investigation services, police and border authorities, etc.) and jointly with Vitosha Research held three focus group discussions with representatives of the relevant stakeholders (one focus group in the city of Haskovo on November 23, 2006, and two focus groups in the city of Burgas on December 1, 2006).

2. Commercial Registration Reform

The efforts of the Law Program to promote and assist the implementation of a comprehensive reform in the field of commercial registration in Bulgaria marked significant progress in the year 2006. After a complicated legislative procedure on March 24, 2006, the National Assembly adopted

the Law on the Commercial Register, developed with the participation of Law Program experts. The law is in line with the basic principles of the Strategy for Establishing a Central Register of Legal Persons and an Electronic Registries Center of the Republic of Bulgaria, which in turn was based on the commercial registration reform concept paper developed by the Law Program experts as far back as 2003. According to the law a new central electronic commercial register should now replace the old paper-based decentralized one. The new register will be kept by the Registry Agency with the Ministry of Justice and registration will follow administrative instead of judicial procedures.

Despite the efforts of the Law Program experts to help the Registry Agency to develop the secondary legislation for the implementation of the law and the timely elaboration of an initial draft version of these rules the reform process gradually slowed down. Due to the fact that the government did not manage to adopt the secondary legislation on time and because of the lack of the necessary technological and

logistical preconditions to transfer the register from the courts to the Registry Agency the parliament was forced to postpone the entry in force of the law from October 1, 2006, to July 1, 2007.

Despite the delay, the reform of the business registration in Bulgaria is progressing in line with the European standards in this area and its accomplishment will not only improve the environment for doing business in Bulgaria but will also furnish the country with a wide range of possibilities for a broader and more effective participation in European trade.

II. Ombudsman Institution

After the election of the first Bulgarian ombudsman in April 2005, the Law Program continued its efforts to help strengthen the institution and turn it into an effective mechanism for guaranteeing good governance and the rule of law. In line with the Partnership Statement between the Ombudsman of the Republic of Bulgaria and the Center for the Study of Democracy, signed in 2005, the activities focused on the provision of expert assistance, training of the institution's administrative staff and organization of joint events. The Law Program also continued to support the establishment of local ombudsmen (public mediators) – a process, which marked further progress in 2006.

1. Strengthening the Ombudsman Institution on National Level

Expert assistance

Experts of the Law Program held a number of working meetings with the ombudsman and officials from his administrative staff on different problems of the institution's work. The

Law Program took part in designing the concept for the ombudsman's public register of complaints, which was successfully introduced in early 2006 and will soon be available on the internet. Experts of the Law Program contributed to the development of the ombudsman's Recommendations to the state and municipal authorities and their administrations for the elaboration of internal administrative rules for operation in case of an investigation by the ombudsman. The recommendations were disseminated among all state and municipal bodies, which gradually started to adopt and implement them. The Law Program also initiated and actively participated in the elaboration of a draft agreement between the ombudsman and the municipal councils which should regulate the introduction of local ombudsmen on municipal level and their interaction with the national ombudsman.

Training and awareness raising

The challenges before a new institution such as the ombudsman made the training of the ombudsman's team a key prerequisite for the effective operation of the institution. Jointly with the ombudsman, the Law Program organized a series of seminars where experts from CSD and other institutions and organizations delivered specialized training for the ombudsman's administrative staff on issues such as receipt and handling of complaints and alerts, operation of the public register of complaints, European standards for good administration, mediation, etc.

Representatives of the Law Program took part in the first national awareness campaign of the ombudsman. The initiative was aimed to popularize the institution of the national ombudsman in districts and regions throughout the

country. The campaign started in late October and continued until December 2006, covering five major cities throughout the country (Pazardzhik, Blagoevgrad, Vratsa, Varna and Burgas). In each of the cities a public discussion "The Ombudsman Institution – Power of Morality and Authority: European Standards for Good Administration" was organized, followed by a press conference for the local media and a ad hoc reception center for citizens' complaints and alerts. CSD experts, who were responsible for the panel on the European standards for good administrative behavior (including the role of the European Ombudsman), developed a detailed presentation on the topic, delivered lectures at three of the events (in Pazardzhik, Blagoevgrad and Vratsa), and disseminated a number of publications from the Center's ombudsman series.

Legislative developments

In September 2006, the National Assembly adopted the third consecutive amendments to the Constitution of the Republic of Bulgaria. As a result, for the first time provisions on the ombudsman were incorporated in the Constitution, providing the institution with the long awaited constitutional status. The Law Program had advocated for this idea for more than three years and has even elaborated draft constitutional amendments. One of the key proposals of this draft, namely the power of the ombudsman to approach the Constitutional Court, was also adopted by the parliament.

Facilitating international cooperation

A priority for the Law Program was to facilitate the establishment and development of cooperation between the Bulgarian ombudsman and foreign

ombudsman type institutions. The Law Program was involved in the organization of several visits of foreign ombudsmen to Bulgaria that helped integrate the Bulgarian ombudsman in the European ombudsmen family.

The major international event organized jointly by CSD and the Ombudsman of the Republic of Bulgaria was the international conference "The Ombudsman – Power through Ethics and Respect – Independence from and Interaction with the Legislature, the Executive and the Judiciary." The event, held on July 27, 2006, brought together the National Ombudsman of the Netherlands Prof. Dr. Alex Brenninkmeijer, Mr. Frank Orton, Former Human Rights Ombudsman of Bosnia and Herzegovina, Mr. Jernej Rovšek, Deputy Human Rights Ombudsman of Slovenia, Mr. Ixhet Memeti, Ombudsman of Macedonia, Mr. Ulco van de Pol, Ombudsman of Amsterdam, Bulgarian MPs, senior representatives of the executive and the judiciary, and NGOs working in the field of human rights protection. The participants discussed a variety of topics, including the interactions between the ombudsman and the state authorities, the role of the ombudsman in countering corruption, the cooperation between the national and local ombudsmen, etc. For the purpose of the conference experts from the Law Program compiled a set of materials, including the articles *The Ombudsman and the Other Human Rights Protecting Mechanisms* and *The Ombudsman and the Judiciary: the Foreign Experience*.

As a follow up to the international conference, on July 28, 2006, CSD hosted a meeting with the representatives of the Bulgarian and Dutch ombudsman institutions. The National Ombudsman of the Netherlands and the Ombudsman

of Amsterdam, representatives of the office of the Bulgarian Ombudsman, the Sofia Municipality Ombudsman, civil society organizations and experts from CSD participated in the working meeting discussing on the opportunities and perspectives for common actions and exchange of information and best practices.

The Greek Ombudsman Prof. Giorgos Kaminis visited Bulgaria in the fall of 2006 and was guest speaker at the round table discussion "The National Ombudsman: A Mechanism for Good Administrative Services and Corruption-Free Administration." During the event, held by CSD on November 8, 2006, Prof. Kaminis made an overview of the institution of the Greek Ombudsman and its activities since its inception eight years ago, noting the specific historic and political conditions that have determined its development. He stressed that the ombudsman must be an essentially independent, respected and creditable figure supported by highly qualified and morally impeccable staff in order to win both the public's confidence and the administration's reliance and be able to keep the latter in check. The discussion benefited from the remarks

of the Bulgarian Ombudsman Mr. Ginyo Ganey and his Deputy Mr. Metin Kazak, CSD Chairman Dr. Ognian Shentov, CSD Law Program Director Dr. Maria Yordanova, ombudsman office staff, and CSD experts.

The European Ombudsman Prof. Niki-foros Diamandouros was the keynote speaker at the round table discussion "The Ombudsman Institution at European, National and Local Level" held by CSD on November 28, 2006. Prof. Diamandouros spoke before representatives of non-governmental organizations, local public mediators, representatives of foreign missions and officials from the Bulgarian ombudsman's administrative staff. The European Ombudsman explained that his visit to Bulgaria is part of a series of visits to all EU Member States and the candidate countries – an initiative aimed at reaching out to the national governments, NGOs and media as well as strengthening the cooperation with the national ombudsmen. Further in his presentation Prof. Diamandouros briefed the participants on the new rights Bulgarians will acquire once the country enters the EU. European citizenship, which will automatically



The Greek Ombudsman Prof. Kaminis speaks about the growing importance of the ombudsman institution at a round table discussion at CSD



Dr. Maria Yordanova, Prof. Nikiforos Diamandouros and Dr. Ognian Shentov during the round table discussion at CSD

add to the Bulgarian citizenship, will create new opportunities for the people to seek protection of their rights such as access to European institutions (including the right to address the European Commission as the Guardian of the Treaties anytime when a national body violates European law), right to seek redress (including before the European Court of Justice) and right to appeal to the European Ombudsman.

2. Examining the Possibilities of Introducing Specialized Ombudsman Institutions

In the year 2006, the Law Program accomplished its study on the opportunities of introducing specialized ombudsman institutions in the country. The study, focusing in particular on the establishment of a healthcare ombudsman, concluded that for the time being it would be a better solution to build the capacity of the national ombudsman to deal with issues in the field of healthcare rather than creating another ombudsman institution thus risking duplication of functions and even undermine the authority of the institution.

The results of the study were publicly presented on March 28, 2006, at the public discussion "The Constitutional Amendments and the Ombudsman Institution: Specialized Ombudsmen in Bulgaria." The event was also dedicated to the recently adopted constitutional amendments and the inclusion of provisions on the ombudsman in the Constitution. Members of the staff of the ombudsman, the public mediator of Sofia municipality and his deputy, representatives of NGOs, experts and journalists attended the event and expressed their views on the two alternative options: the establishment of a special healthcare ombudsman (on a national level or at each medical establishment) or the institution of a specialized unit within the office of the national ombudsman were presented during the discussion.

3. Continuing Support for Local Ombudsmen

The Law Program continued its support for the establishment and strengthening of local level ombudsman institutions (public mediators). In 2006, additional

municipalities introduced the institution of the local public mediator and by the end of the year there were more than fifteen local ombudsmen throughout the country. The Law Program continued to provide expertise to municipalities wishing to introduce the institution and to assist the elected public mediators in their activities.

At a round table discussion in the city of Pazardzhik, organized by the public mediator of Pazardzhik municipality on November 1, 2006, representatives of the Law Program presented the current situation with the establishment of local ombudsmen in Bulgaria. The event brought together fifteen public mediators and in conclusion of the discussions a decision was made to establish an association of local public mediators. The same idea was launched by the Law Program several years ago but was not further developed due to the few local ombudsmen operating at that time. However, the experience

accumulated with this past effort will allow CSD to substantially contribute to the renewed initiative and facilitate the process of instituting the local ombudsmen's organization. The idea was further discussed at the round table discussion "The Ombudsman Institution at European, National and Local Level" on November 28, 2006.

4. Publications

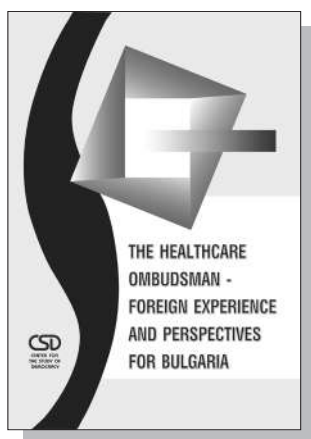
The Law Program added one more publication to its ombudsman series and continued to publish articles in other media as well.

The brochure *The Healthcare Ombudsman – Best Practices and Prospects for Bulgaria*, published in April 2006, dealt with different aspects of the institution of the specialized healthcare ombudsman and the possibilities for its introduction in Bulgaria. The publication contained an overview of the good practices and the experience in the United Kingdom,



During the discussion on the healthcare ombudsman (from right to left): Ms. Rossitsa Totkova, Director of Citizens Complaints Directorate at the national ombudsman's office, Dr. Maria Yordanova, Director of the Law Program, Ms. Dragomira Paunova, Project Assistant at the Law Program

Australia, Switzerland and Israel. The edition included also a detailed summary of a discussion in relation with two draft laws concerning the institution of the health ombudsman and the comments and the recommendations on them of the Law Program experts.



The experts of the Law Program continued to provide regular contributions for the European Ombudsman Newsletter and their articles featured in the newsletter's Issue No. 6 of April 2006 and Issue No.7 of October 2006.

The Ombudsman Information Network, maintained by the Law Program for several years now, was regularly updated offering comprehensive information on the current situation with the ombudsman type institutions in the country. The network is particularly helpful to the general public because of the delay with the launch of the national ombudsman's official website. On the other hand, it is instrumental for improving the cooperation among the local public mediators since it serves as a publicly available resource center for exchange of experience, information and documentation.

III. Monitoring of Racism and Xenophobia

In 2006, CSD operated for the first time the Bulgarian National Focal Point (NFP) of the European Racism and Xenophobia Information Network (RAXEN) coordinated by the European Monitoring Centre on Racism and Xenophobia (EUMC). The RAXEN network is comprised of NFPs in each of the EU Member States. As an NFP the Center was responsible for collecting official and unofficial data on racism and xenophobia in the country in areas such as employment, housing, education, legal issues and racist violence and crime. The information collected was submitted to the EUMC in the form of various deliverables (data collection report, special study, bulletins, data bases, etc.).

As part of its responsibilities as a RAXEN NFP on September 28-29, 2006, the Center held an international workshop "Policing Minorities." The event was aimed to broaden the opportunities for Bulgarian NGOs to work with government and law-enforcement institutions in addressing issues of ethnic and racial discrimination and violence and to increase the capacity of Bulgarian law-enforcement institutions to prevent and analyze issues related to ethnic and racist violence and discrimination. Among the participants were Mr. Alessandro Budai, Mr. Tomaz Trplan and Ms. Joanna Goodey from EUMC, CSD's experts Mr. Dimitar Markov, Mr. Tihomir Bezlov and Mr. Philip Gounev, Mr. Aidan Fitzpatrick from the Employment Development Division of the Equality Commission for Northern Ireland, Mr. Milcho Enev, Chief Inspector at the Bulgarian National Police, Mr. Kensika Monshengwo from the Irish National Consultative Committee on Racism and Interculturalism,

Ms. Rachel Neild and Ms. Rebekah Delsol from the Open Society Justice Initiative in New York, Mr. Joel Miller from the University of Malaga, Mr. Rich Keenan, Detective Chief Inspector at the Professional Standards Department of the Leicestershire Constabulary, the Director of the European Institute of Crime Prevention and Control (HEUNI) and President of the European Society of Criminology Mr. Kauko Aromaa, the Deputy Ombudsman of the Republic of Bulgaria Mr. Metin Kazak, Ms. Anna Papadopoulou, Senior Investigator at the Department of Human Rights of the Greek Ombudsman, the Chair of the Bulgarian Commission for Protection from Discrimination Mr. Kemal Eyup, and Mr. Valery Roussanov, Chair of the Board of Directors of ACCESS – Sofia Foundation.

IV. International Cooperation

The Law Program continued its successful cooperation with projects and initiatives implemented by foreign partner organizations.

Through its Law Program CSD took part in the project "THEMIS: Transformation of the Role of the Judiciary within the European Integrated Context" implemented by the Greek European Public Law Institute (EPLC) jointly with partners from Turkey, Romania, Bulgaria and Slovakia. In the framework of this project CSD was involved in the organization of a workshop in Istanbul and a conference in Athens both aimed at generating discussion and exchange of ideas on the dysfunctions and best practices of each system and the need of reforms and transformations thereof.

The Law Program assisted the implementation of some of the activities under the project "Working Together – the Key to Improving the Management of Judicial Cases and the Consistency of Judgments", coordinated by Friedrich Naumann Foundation in cooperation with the bar associations of Sofia, Ankara and Bucharest. The Law Program Director Dr. Maria Yordanova delivered a presentation on the civil society initiatives for reforming the judiciary in Bulgaria at the international conference "Legal



Mr. Kemal Eyup, Chair of the Bulgarian Commission for Protection from Discrimination, describes the activities of the commission in the field of racial and ethnic discrimination during the international workshop Policing Minorities

Reform in the Accession Process" held in Bucharest in June 2006 and attended the other two conferences under the project held in Ankara in April and in Sofia in October 2006.

Dr. Maria Yordanova took part in an international conference "Preventing and Fighting Corruption in the Public Administration in Europe", organized by the German Civil Service Federation Academy (DBB Akademie) in Cologne, Germany, on February 20-21, 2006. As a follow-up to the event CSD became a member of an International Anti-

Corruption Information Project and Training Network established upon the initiative of the DBB Akademie.

In the framework of the newly established cooperation with the Rule of Law Program for South East Europe of Konrad Adenauer Foundation members of the Law Program contributed to the organization an international conference "Bulgaria and Romania on the Eve of EU-Accession: Achievements and Challenges Ahead for the Justice Systems", held in Sofia on December 14-16, 2006.

Economic Program

In 2006, the Economic Program focused its work on three thematic areas: informal economy, VAT fraud and corruption - bridging criminal and economic

policies; innovation and knowledge economy; European integration and competitiveness.

2006 Highlights

- The Economic Program continued to monitor the economic aspects of informal economy and **anti-corruption policies and practice** in Bulgaria and the European Union. Its policy analysis and advice contributed to the introduction of new anti-fraud measures in the Bulgarian VAT system and provided innovative economic instruments to complement criminal justice policies in combating **organized crime** in the enlarged European Union.
- CSD coordinated the work and contributed for a second year to the annual report *Innovation.bg 2007*, which analyzes the functioning of the national innovation system and makes recommendations for enhancing the innovation performance of the Bulgarian economy. CSD continued its work on the elaboration of a **Regional Innovation Strategy** for the South West Planning Region in Bulgaria.
- As a specific effort to improve Bulgaria's capacity in managing EU Funds and reduce corruption incentives in public procurement CSD has started an initiative on better regulation of **public-private partnerships (PPP)** in Bulgaria. The initiative aims to make a comparison between existing legislative practice on PPP in Europe and the United States and propose an effective PPP solution for Bulgaria.
- **European integration and competitiveness** was an important focus of the Economic Program in 2006. Through CSD contribution Bulgaria was included for the first time in IMD's Competitiveness Yearbook – the most comprehensive reference book on competitiveness for international investors. CSD representatives contributed to the second annual Report for the Bulgarian President *Bulgaria 2006: Convergence and European Funds*. CSD explored the necessary national instruments for effective management of EU funds in the first years after accession and the trends in the international competitiveness of the country.
- In 2006, CSD continued to offer useful knowledge through the **Bulgarian Distance Learning Center** of the World Bank's Global Development Learning Network. CSD became a regional coordinator for South-East Europe for some of the programs offered by the network.

I. Informal Economy and Anti-Corruption

In 2006, the Economic Program continued its work on policy assessment and advice on the issues of informal economy and anti-corruption focusing on specific issues such as VAT fraud, informal labor, measurement, etc. In its brief *A Painful Shift in Bulgarian Anti-Corruption Policies and Practice* CSD recaps Bulgaria's track record in anti-corruption policies and lists the remaining and new challenges in this area after the country's accession to the European Union in 2007. The brief underlines that the most important shift

in Bulgaria's anti-corruption policies in the run-up months to EU accession is the move from "soft" (awareness-raising) campaigns to "hard" (prevention and sanctions oriented) measures with immediate anti-corruption effects. The brief outlines two areas of outstanding challenges: VAT fraud and corruption in public-procurement. Success in these areas require commitment on the side of the Bulgarian government to independent oversight and better coordination of anti-corruption policies between the legislature, the government and the judiciary.

The Bulgarian government should work on its good progress in improving the internal (within the executive) and external (to the judiciary and the legislature) **coordination of anti-corruption measures**. The complexity of the coalition government creates additional possibilities for watering down political and administrative accountability, hence the increased need for coordination between different anti-corruption agencies and players. In this regard the government's Commission for Prevention and Countering of Corruption remains understaffed and has yet to demonstrate capacity to **pro-actively generate anti-corruption policies**.

Two **areas** remain **critically important** to curbing political corruption in Bulgaria in the long-run:

- **public procurement** – the European Bank for Reconstruction and Development and the World Bank have recently confirmed the findings of national organizations that public procurement remains the most corruption vulnerable area in the economy.
- **VAT fraud** – According to different estimates the Bulgarian government loses up to € 450 – 500 million in VAT fraud annually. While these numbers may be low compared to similar estimates in Germany (€ 18 – 20 billion) or Great Britain (€ 10 billion) they represent a much higher share of annual VAT revenues in Bulgaria (25 – 30%) than in these EU countries (5 – 6%).

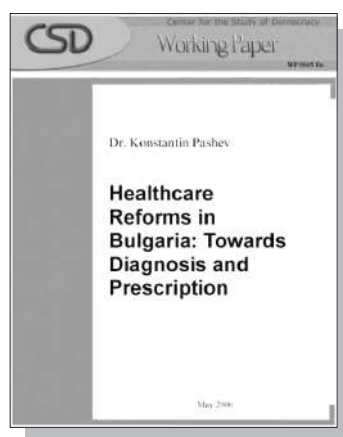
Source: CSD Policy Brief No 10 *A Painful Shift in Bulgarian Anti-Corruption Policies and Practice*, 2006.



As a specific effort to improve Bulgaria's capacity in managing EU Funds and reduce corruption incentives in public procurement CSD has started an initiative on better regulation of public-private partnership (PPP) in Bulgaria. The initiative aims to make a comparison between existing legislative practice on PPP in EU countries, the United States and Canada and propose an effective PPP solution for Bulgaria. CSD has held consultation on prospective PPP regulation with the Bulgarian Ministry of Finance, the main body managing EU Funds spending in Bulgaria and the Bulgarian Parliamentary Combating Corruption Committee, which has set public procurement and PPP as a focus of its work in 2007.

The Economic Program continued to explore anti-corruption and informal economy in 2006. It identified the types and modus operandi of **VAT fraud** – primarily the abuse of tax credit. The CSD working paper *Fighting VAT Fraud: the Bulgarian Experience* analyses the elements of tax design permissive to VAT abuses and discusses the possible solutions in the light of the international and domestic experience and the capacity of the Bulgarian tax

administration. The study concludes that the possible solutions lie with optimizing risk management and the principle of joint liability rather than with tighter controls at entry and on the conduct of business. The Bulgarian Parliamentary Commission for Prevention and Countering of Corruption invited CSD experts to testify on hearing on countering VAT fraud and to present the main conclusions and recommendations from the CSD report *Corruption and Tax Compliance: Policy and Administration Challenges*. Most of the recommendations outlined in the report were implemented in policy and legislative changes by the end of 2006.



Another area of research related to better governance and started by the Economic Program in 2006 was *Healthcare Reforms in Bulgaria*. The CSD working paper shows that low compliance by both customers (contributors) and service-providers (contractors with the National Health Insurance Fund) in Bulgaria leads to excessive regulation and control, crowding out of the private sector and an increase in the incentives for corrupt behavior. The outcome is a system that is increasingly driven by administrative controls at the expense

of market incentives. Based on this analysis the paper identifies the relevant policy implications and opportunities for moving the stalled health reforms out of the institutional impasse and improving the system's governance. CSD will publish an extended analysis on anti-corruption policy alternatives for the Bulgarian healthcare system in 2007.

On 23-24 June 2006 the Center for the Study of Democracy organized an international conference "Corruption and Organized Crime: Bridging Criminal and Economic Policies." The conference aimed at reviewing the range of effective policy instruments and proposing integrated solutions to governments, international institutions and civil society. The discussion focused on the use of socio-economic policies against organized crime.

In October and November CSD experts were invited to participate in the design of an EU-wide feasibility study on monitoring informal labor. CSD's system for monitoring the dynamics of informal economy in Bulgaria developed and tested in the period 2002 – 2006 was approved by the working group on the feasibility study as one of the model-studies.

II. Innovation and Knowledge Economy

In 2006, CSD continued to promote and support policy-making in the area of innovation and knowledge economy. CSD representatives took part in the elaboration of the *Innovationbg* Report, which analyzes the national innovation system and makes recommendations for enhancing the innovation performance of the Bulgarian economy. The latest edition of the report made a review of the European innovation policy and

the opportunities for development it offered to Bulgaria. The report was enhanced with the elaboration of a special Innovation Index of the Bulgarian enterprises, based on the results of the annual surveys of the Innovation Relay Center, Sofia and with a profile of the Bulgarian innovative companies based on panel data and in-depth statistical analyses. The Innovation Index of the Bulgarian enterprises indicated that most of them (over 65%) had not implemented any innovation during the period 2005 - 2006. The index showed that Bulgarian companies have low ability to combine several types of innovation and that their innovations have low degree of novelty compared to EU levels.



CSD took an active part in the work on elaborating a Regional Innovation Strategy for the South West Planning Region in Bulgaria (RIS BRIDGE) in 2006. A cornerstone in this work was the exchange of practical ideas on developing a workable regional innovation system. Between 28 and 30 May 2006 representatives of the Center for the Study of Democracy, the Applied Research and Communications Fund, and the governors of Sofia, Blagoevgrad

and Pernik Districts of Bulgaria, the deputy governors of Kyustendil and Blagoevgrad Districts, as well as representative of the Bulgarian Ministry of Regional Development and Public Works took part in a study visit to Thessaloniki, Greece. The Bulgarian governors got exposure to both practical policy advice on developing regional innovation policy and specific examples of results from projects financed under the EU funds – a university technology transfer office and an innovation business incubator and technology park in Thessaloniki.

CSD further explored the relationship between competitiveness and innovation in a discussion "Ireland's Road into the EU", held on 1 June 2006, with guest speaker Mr. Andrew McDowell, Chief Economist and Manager of the Competitiveness Division of Forfas – the Irish government's policy and advisory board for enterprise, trade, science, technology and innovation. Mr. McDowell's speech focused on

Ireland's policies of using EU funds to propel the economic and technological development of the country from the last to one of the first places in Europe. He highlighted the EU impact on Ireland's economic transformation in areas such as macroeconomic stability, investment climate, implementing effective competition and regulatory reform, as well as achieving improvements in governance. Bulgarian guests, among which MPs and former deputy-prime minister, were particularly interested to understand the institutional and administrative processes Ireland used to improve its competitiveness in Europe.

III. European Integration and Competitiveness

Another highlight on CSD's agenda in 2006 was the support to Bulgaria's European integration process. CSD representatives contributed to the elaboration of the second Report for the Bulgarian President *Bulgaria 2006*:



Prof. Giorgios Tsiotras, Secretary General, Regional Authority of Central Macedonia (left) and Mr. Todor Modev, Governor of the Region city of Sofia and Chairman of the Steering Committee of the Regional Innovation Strategy for the South-West Planning Region during an interview in Greece, May 2006

Convergence and the European Funds. The report was officially presented on 22 January 2006. It focuses on the influence of the European Funds on the Bulgarian economy regarding the convergence of the Bulgarian with the European economy, and on the possibilities for decreasing regional discrepancies in the country. CSD contributed in two important areas – improving governance and the development of a knowledge based economy in Bulgaria's regions.



On 10 May 2006 the Center for the Study of Democracy organized in the Bulgarian Parliament a round table "Effective Management of EU Funds in Bulgaria - Necessary National Instruments in the First Years after the Accession." During the event members of parliament, ministers and high-ranking administrative officials discussed the financial instruments and measures needed for increasing the capacity of Bulgarian organizations for preparing competitive bids under the EU funds. The low level of readiness of the small Bulgarian municipalities and firms to prepare projects, and hence to use effectively the 7 bln. euro envisaged for Bulgaria through the EU's Structural and Cohesion Funds for the period

2007-2013, proved to be the major problem in this context.

Mr. Plamen Oresharski, Bulgarian Minister of Finance highlighted the necessity of strengthening and stabilizing the Bulgarian budget in 2007 to guarantee, finance and support for the elaboration and implementation of projects under the European funds. He underlined the importance for Bulgaria's competitiveness of good coordination between financial instruments, directed towards the development of science and innovation at national and European level – the National Innovation Fund, the National Science Fund, EU Structural and Cohesion Funds, the Seventh Framework Programme for Science, Technological Development and Demonstration and the Competitiveness and Innovation Program of the EU.

Ms. Lidia Shouleva, Member of the Economic Policy Committee and the Budget and Finance Committee of the Bulgarian Parliament, and Observer in the European Parliament proposed the establishment of a national fund to support project development at Bulgarian municipalities, which would ensure the equal participation and access to EU funds of the underdeveloped municipalities. She also proposed the establishment of similar project facilities for support of SMEs.

With the partnership of CSD Bulgaria was included for the first time in the world's oldest and most comprehensive annual report on the competitiveness – the World Competitiveness Yearbook of IMD (International Institute for Management Development). In the Yearbook Bulgaria was ranked 47th among 61 other national and regional economies – scoring better than Italy, Romania, Poland and Croatia. The comparative advantages of the Bulgarian



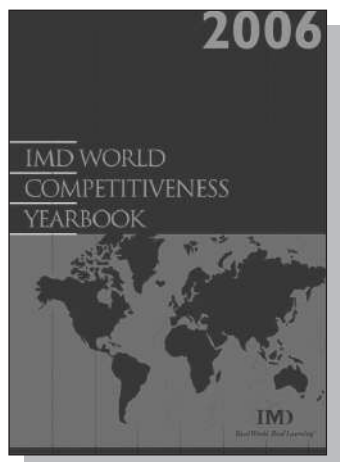
Ms. Lidia Shouleva, Member of the Economic Policy Committee and the Budget and Finance Committee, and Observer in the European Parliament and Mr. Plamen Oresharski, Minister of Finance

economy (positions among the first ten) were the stable macroeconomic environment, high per capita economic growth, low taxes, export of services, budget balance, remuneration of labor, unit labor cost and investment in telecommunications as percent of GDP. In May 2006, CSD together with the Bulgarian Small and Medium Enterprise Promotion Agency and the Invest Bulgaria Agency organized a press conference to present Bulgaria's position in the Yearbook.

IV. Distance Learning

In 2006, CSD continued its work with the Global Distance Learning Network (GDLN) through its Distance Learning Center. The Center carried out videoconferences on a number of topics: social entrepreneurship, industrial clusters, accounting and auditing, global issues, development of SMEs and access to finance, review of regional competitiveness and investment climate improvement.

The Center stayed committed to promoting civil society development in Bulgaria and in Europe. In the framework of the DLC on 30 May 2006 the Center for the Study of Democracy organized a round table discussion on the past, present and future of civil society. Guest speakers at the event were Mr. Michael Edwards, Director of Civil Society and Governance at Ford Foundation and Mr. Martin Butora, Honorary President of the CEE Trust for Democracy. Later on CSD organized within the GARNET network of excellence a workshop (10 - 12 November 2006) to present the role of non-state actors and civil society in the global regulatory framework. The objective of the workshop was to examine the global public sphere and the global civil society.



IMD's World Competitiveness Yearbook 2006 highlights the areas, in which Bulgaria urgently needs to implement adequate measures in order to improve its position:

- Investments in infrastructure and energy efficiency;
- Encouragement of innovation and high-technology export;
- Implementation of long-term national policy for development of human capital, focusing on the reforms in healthcare and education;
- Resolving chronic problems with administrative discretion, red tape and corruption.

Vitosha Research

2006 Highlights

In 2006, Vitosha Research carried out 40 economic, social, marketing and media surveys. Quantitative and qualitative methods were used to conduct 28,000 face-to-face structured and semi-structured interviews, 120 in-depth interviews and 28 focus groups discussions. The results of the surveys were summarized in 15 analytical reports.

- Vitosha Research focused its surveys on the current economic problems, related to the readiness of the small and medium-sized enterprises (SME) in the country to absorb the EU structural and cohesion funds, study of the innovation potential of the enterprises in Bulgaria and national policy in the field of innovations.
- The social sphere was another priority research field in 2006. Several studies of Vitosha Research were focused on the traffic of children and its prevention. The studies included exploring the mechanisms of trafficking, the real needs of the groups most at risk, the problems of education and poverty among children, and public spending on children. In 2006, Bulgaria joined the European countries in which the large-scale international European Social Survey (ESS) is carried out. Vitosha Research is part of the European survey team which conducts the research in Bulgaria.
- In 2006, Vitosha Research as partner of the Gallup Organization-led consortium started implementing the Flash Eurobarometer survey (2006-2010). Flash Eurobarometer is the premier tool in the work of European decision-makers. It is the one of the largest ongoing survey research projects worldwide and tracks opinions of European citizens on topical social, economic and political issues. The Flash Eurobarometer covers 34 countries, including European Union member states, candidate countries, and other European nations.

I. Economic Surveys

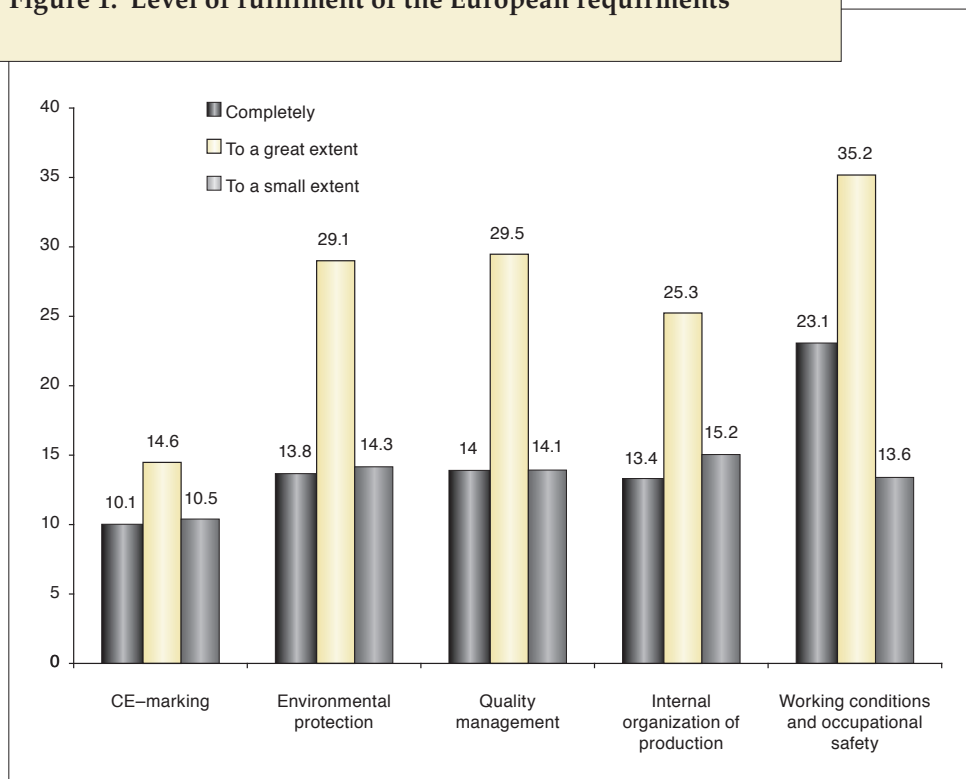
1. Bulgarian Small and Medium-Sized Enterprises and Their Participation in the Absorption of the European Union Structural Funds

In 2006, Vitosha Research and Applied Research and Communications Fund conducted a survey among 1,000 small and medium-sized enterprises, commissioned by the Ministry of Economy and Energy. The overall project objective was to produce an analytical report on the status and development of SMEs in the country, which should be used to improve and fine-tune the Operational Program Development of the Competitiveness of the Bulgarian Economy by taking into account to the utmost degree the specific

problems of the Bulgarian small and medium-sized enterprises. The main findings from the survey include:

- Only a few months before the country's accession to the EU, Bulgarian SMEs had a relatively low level of readiness to fulfil the requirements regarding the quality and safety of goods, the internal organisation of production, the introduction of new technologies, protection of the environment, working conditions and labour safety;
- The capacity of SMEs for participation in the absorption of resources from the European funds is still to be increased. In 2006, the firms do not see the European programs and funds, open for Bulgarian participation, as

Figure 1. Level of fulfilment of the European requirements



an important source of financing of investment projects, new technologies, establishment of in-house capacity and innovation projects;

- Despite the improvement since 2004 both with regard to the development of business plans and the extension of their planning horizons, the Bulgarian firms still plan for no more than one year ahead, which is a serious structural obstacle for the synchronisation of their business processes with the work of the national operational programs and Structural Funds of the EU;
- The dominating strategies of the SMEs are reactive, rather than pro-active. In this context it is recommended to develop management consulting schemes for SMEs with a view to developing management capacity in the field of strategic management and planning.

Specific recommendations for efficient European funds utilisation and the Development of the Competitiveness of the Bulgarian Economy program implementation were outlined on the basis of the analysis.

2. Innovation Potential and Needs of the Bulgarian Companies

The main goal of this project was to analyze the technological potential and innovation needs of Bulgarian companies. The existing technologies and the need for the introduction of new technologies were assessed. The results were summarized in an analytical report; a number of recommendations for the improvement of the existing environment for the technological development and innovation were made.

3. Annual Report on the State and Development of National Policy in the Field of Innovations - 2006

This project was commissioned by the Ministry of Economy and Energy in order to analyse the state of research, development and innovation activity in Bulgaria. The main objective of the project was to prepare an Annual Report on the state and development of national policy in the field of innovations in 2006. The specific aims of the project, as defined in the National Innovation Strategy of the Republic of Bulgaria, were:

- Assessing the implementation of the measures set down in the strategy during the past year;
- Assessing the results of the activities for implementation of the measures envisaged in the strategy;
- Planning the necessary actions for the next reporting period, backed by the respective finances for their accomplishment.

The summarized results of the survey will help to identify the main problems in the accomplishment of the goals of the Innovation Strategy and the improvement of innovation activity. The analysis is a basis for the clear prioritisation of the areas where improvements are needed; recommendations for concrete measures regarding utilisation of the strong sides and possibilities; liquidation of the weak sides and avoidance of threats. On the basis of the analyses and identified driving forces in the future development, a vision will be elaborated of the place of Bulgaria in European research and innovation space. The analysis and vision will form the basis for the development of new measures, aimed at the imple-

mentation of the National Innovation Strategy.



4. Business and Trade Union Leaders Survey

The main goal of this elite survey commissioned by Princeton Survey Research Associates International (USA) was 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 was used to accomplish the objectives of the study. The owners, managers and chief executive officers (CEOs) of large and medium companies, were the basic target group of respondents for the quantitative survey. Additionally a subset of trade union leaders was interviewed. The following issues were examined:

- The most important problems Bulgaria is facing;
- Opinions about various aspects of Bulgarian society;
- Opinions about various economic policies and reforms;
- The biggest problems for the firms in the country;
- Opinions about Bulgaria's joining the EU;
- Advantages/drawbacks for Bulgarian firms from the membership of Bulgaria in the EU;
- Attitudes towards the EU, its institutions and policies, the euro;
- Opinions about immigrants;
- Expectations about the future financial situation of respondents families, etc.

5. Tax and Social Security Obligations Compliance

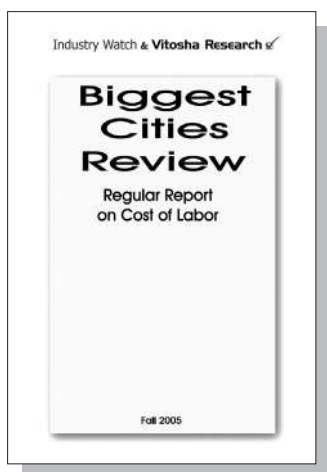
In 2006, the National Revenue Agency commissioned Vitosha Research to carry out a survey aimed at studying the motives of citizens and firms to observe their tax and social security obligations, as well as their opinions and assessments of the tax and social security system in the country. The analysis of the attitudes and assessments of taxpayers and insurers will enable to identify the possible ways of stimulating the voluntary observance of tax and social security obligations, as well as the reasons for evading them. The summarized results of the survey will help to improve the overall work of the National Revenue Agency. The survey is conducted for a third year and this allowed some basic trends to be outlined.

6. Biggest Cities Review

In 2006, Vitosha Research and Industry Watch started a new research project - **Biggest Cities Review**. It provides for the preparation of a regular report which includes quarterly reviews on selected

topics. The main aim of these analyses is to provide reliable and up-to-date information that can be used as a basis for making investment decisions. The main topics considered in the regular reports are:

- Differences in the cost of labor by cities;
- Average working salary and job offers;
- Differences in the cost of living by cities.



II. Social Surveys

1. European Social Survey

In 2006, Bulgaria joined the European Social Survey (ESS). It gathers information about the attitudes, opinions and models of behavior of people in many European countries. Thirty-one countries from Europe, including Bulgaria, will take part in the current third wave of ESS.

In November and December 2006, Vitosha Research conducted the survey

in Bulgaria. The overall coordination and financing was provided by the European Commission, with the assistance of the European Research Fund. The field work in Bulgaria was financed by the Scientific Research Fund at the Ministry of Education and Science.

2. Producing an Effective Answer against the Traffic of Children

In 2006, the Partners Bulgaria Foundation commissioned Vitosha Research to conduct a survey which is part of an international project, aimed against the traffic of children in the countries of the Balkan region. The project is coordinated by the foundation Save the Children. It aims to study in details the mechanisms for the trafficking of children, to verify the hypotheses of the main risk groups and risk factors, to identify the needs of the real and potential victims, and to prepare a reliable data base for the development of adequate and effective counter-measures.

3. Survey of the Reasons for Dropout from School

This project was commissioned by the Ministry of Education and Science and UNICEF. The main objective of the survey is to outline, compare and study in depth the reasons for children drop out from the system of education in the country. Survey results will support the process of preparing more efficient and effective government actions in the field of education and, more specifically – reducing the share of children at school age who are dropping out of the system of education. In general, the conclusions of the survey were as follows:

- The application of inter-sectoral policies in the field of prevention

and reduction of dropout of school is part of a complex coordination mechanism for the protection of the child, unique for the Bulgarian conditions, which has yet to prove its effectiveness. Indicators for monitoring effectiveness and a working system for public communication of what has been achieved are needed.

- The statutory framework of inter-sectoral policies in the field of prevention needs to be simplified and optimized. It is recommended that the Integrated Plan for the Implementation of the UN Convention of the Rights of the Child (2006-2009) be the basis of this optimization.
- National system for monitoring and collecting data about the dropout of children from school needs further improvement. The nationally gathered data, which are used to elaborate inter-sectoral policies for preventing and restricting dropouts are still limited, and differ depending on their source.



4. Study of Poverty among Children and Public Spending on Children

The objective of the study, carried out at the end of 2006, was to provide adequate information about child poverty, expressed in monetary and social terms. The target of the study were 3,000 households with children aged under 18, selected in 30 municipalities (in 6 planning regions of the country) with different level of economic development and different capacity to deal with poverty.

III. IT Surveys

The study of information society in Bulgaria was commissioned by the State Agency for Information Technology and Communications. The project aimed to assist managerial, control and supervisory agencies of the state administration in outlining policy priorities and key measures for the development of the information society providing a sequence of data and analysis on the information society development and major trends for the period 2005-2006. The project was based on an established methodology making quantitative assessment of the readiness of the Bulgarian society to use new information and communications technologies (ICT).

The survey evaluated the country's development based on a multitude of indicators including:

- infrastructure and access to information technologies;
- ICT application skills and capabilities
- encouragement of ICT application;
- e-business

- online public institutions;
- barriers for wider application.

The following conclusions are made on the basis of survey data:

- Significant growth is registered in the number of people with access to computers. Monthly data for 2005 shows a stable uptrend in the number of internet users. If this trend is retained, the share of the total population over 15 years is likely to approximate 30% in end-2006;
- The share of home users of broadband connection (10,6% as at October 2005) is very close to the EU average (10,8% as at July 2005);
- Internet costs have not changed significantly over the last year. The

prices of the most popular access technologies remained mostly unchanged, with only the price of ADSL registering tangible change;

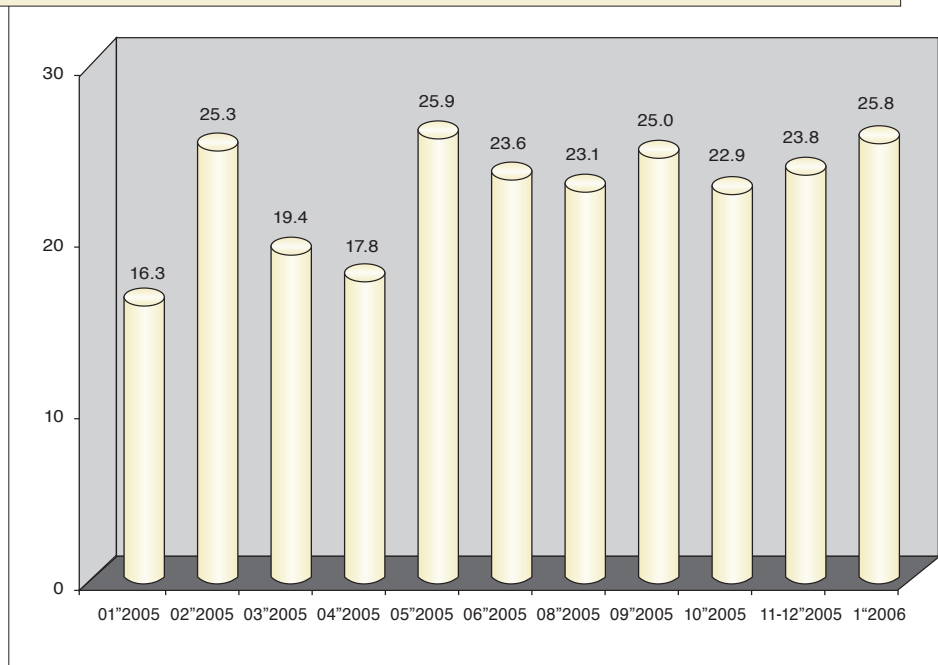
- The number of companies having more than five computers with internet connection remains low.

IV. Public Opinion and Media Surveys

1. Flash Eurobarometer

In February 2006, the European Commission chose the consortium led by the Gallup Organization to run the Flash Eurobarometer opinion polls in the coming four years. The partner of the consortium in Bulgaria was Vitosha Research. Flash Eurobarometer is the premier tool in the work of European

Figure 2 Internet access of Bulgarian population aged 15 and over



political decision-makers. It enables to gather and analyse current information about citizens in the European Union and countries outside it on the most topical social, economic and political issues. The survey covers 34 countries. In June 2006, Vitosha Research conducted the first Flash Eurobarometer among clustered firms. The opinion was studied of the representatives of business, responsible for management decision-making, with regard to the main difficulties and problems in Bulgaria which their organisations experience at present.

In November 2006, Vitosha Research ran the second Flash Eurobarometer – a telephone poll among the citizens of Sofia and Bourgas. The subject of the study were people's opinions and assessments of the state of the city in which they live, as well as other relevant socio-economic and public issues. The comparative data and summarised results of the surveys in Bulgaria and in the other EU candidate countries are published by the European Commission.

2. Citizens and Recycling Waste

Vitosha Research agency and the Institute of Sociology at the Bulgarian Academy of Sciences conducted a survey on "Citizens and separate waste collection – tendencies for change in ecological culture". It was commissioned by the Ministry of Environment and Waters and aimed at assisting the ministry to design and setup a campaign encouraging separate waste collection by citizens and at evaluating its expected outcomes.

3. Attitudes of Bulgarian Citizens to Games of Chance

The purpose of the survey conducted by Vitosha Research was to provide infor-

mation about the attitudes of Bulgarian citizens to the Bulgarian sport lottery and to the other types of "games of chance", to define the profile of the participants and non-participants in such games, to analyse the preferences, views and evaluations of the games and their characteristics.

4. Evaluation of Deutsche Welle Radio Broadcasts in Bulgaria

The aim of this project was to study the range of positive and negative reactions to the content and presentation of the program of Deutsche Welle in Bulgaria and to determine the strong and weak sides of this media in order to come up with specific proposals for the improvement of the programme of Deutsche Welle for the purpose of widening its audience.

5. Survey of the Media Audience, Programme and Listeners Profile of Hristo Botev Program

The main aim of the survey carried out by Vitosha Research was to study the profile of the listeners of the Hristo Botev program and the potential groups of the radio audience that might be attracted, to study the genre of the broadcasts in the program, the proportions and possibilities for a balance between the broadcasts on culture, music and information broadcasts. On the basis of the quantitative and qualitative analyses detailed recommendations were made regarding the positioning of the broadcasts in the program scheme, in conformity with the possibilities and preferences of the audience.

The marketing surveys carried out by Vitosha Research in 2006 covered mainly the following areas:

- rice market in Bulgaria
- automobile market in Bulgaria
- home improvement and repair
- consumption of alcohol and spirits
- security services market in Bulgaria
- popularity of the HIT hypermarket.

The results of the surveys conducted in 2006 were summarized in 15 analytical reports, some of which were:

1. *Information Society in Bulgaria - 2005-2006*, May 2006
2. *Bulgarian Small and Medium-Sized Enterprises and Their Participation in the Absorption of the Structural Funds of the European Union*, June 2006
3. *Reasons for Dropout from School*, November 2006
4. *Media Audience, Programme and Listeners Profile of BNR and Hristo Botev program*, July 2006
5. *Rice Market in Bulgaria*, April-September 2006
6. *Attitudes of the Bulgarian Citizens to Games of Chance*, April 2006
7. *Deutsche Welle Programming* (in-depth interviews with media experts), November - December 2006

European Program

In 2006, CSD's European Program focused on the new security threats in the context of Bulgaria's upcoming EU accession and NATO membership. The Program's main instruments included the provision of a public-private platform for the discussion of shared approaches to combating corruption, organized crime and contraband and the publication of policy analyses.

2006 Highlights

- **NATO transformation** was one of the areas of particular interest for the European program in 2006. CSD's contribution focused on helping the Alliance to go beyond the intergovernmental approach and reach out to other types of partners. Projection of stability is key for NATO's future role in international security and it requires new, adequate capabilities but also partnering with various allies in critical regions, including Southeast Europe.
- **Crime prevention and analysis of crime trends** 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.
- CSD also contributed to the analysis and **policy recommendations of stop-and-search policies** by the Bulgarian police, focusing on the practices of disproportionate stops of members of the Roma ethnic minority. CSD's study was part of a Europe-wide initiative aimed to map discriminatory police practices across Europe.

I. NATO Transformation

As part of its series of annual security events, the Center for the Study of Democracy held the international conference "NATO Transformation - Facing New Security Frontiers" on 28-29 April, 2006. It was a follow-up to the 2006 NATO ministerial meeting hosted by the government of Bulgaria. The conference contributed to the broader debate on NATO's transformation and helped outline bold new policies, overcoming legacy relationships and trans-atlantic divides. The discussion focused on the future partnerships in managing common security challenges and longer-term political strategies for the Balkans and the wider Black Sea area. The conference was attended by NATO Ministers of Foreign Affairs and Permanent Representatives, high-level representatives of the Alliance, EU, Ministers of Foreign Affairs of Ukraine, Georgia, Armenia, Azerbaijan, Albania, Croatia, the Republic of Macedonia, Bosnia and Herzegovina, Serbia and Montenegro, Members of Parliaments, policy analysts, representatives of the media.

One of the main topics of the conference, addressed in one way or another by all participants, was the effort to work out a common definition of the new security frontiers. Two main aspects of this effort were focused on - geographical and functional. From the point of view of geography, the importance of the different NATO partnerships was emphasized. Enhancing the partnership approach should not come at the expense of increased bureaucracy but should rather focus on bringing added value and flexibility. Ties to new partners should not diminish the importance of the existing partnerships, nor should they encapsulate the partnerships into a group of like-minded states and societies.

From the point of view of the functional dimensions of security, it is obvious that the security frontiers have been moved as well. A political transformation is accompanying military transformation in NATO in response to shifts from one type of threat—a massive invasion—to a variety of asymmetric risks and threats coming from different sources and directions and interacting in often unpredictable ways.



From left to right: Mr. Ivailo Kalfin, Minister of Foreign Affairs of Bulgaria, Dr. Oginan Shentov, Chairman CSD, Ambassador Boyko Noev, Amb. Adam Kobieracki Assistant Secretary General, Operations, NATO, Robert McFarlane, Former National Security Advisor, US

One much discussed new challenge to international stability was energy security. The importance of international cooperation to protect critical energy infrastructure was highlighted during the conference. The global energy systems are vulnerable and disruption of critical infrastructure could have a variety of political, social and military implications.

Energy security was also the topic of a round table organized by CSD on 11 May 2006 with guest speaker was Mr. Philip Stephens, associate editor of the Financial Times and senior commentator at the newspaper. Several aspects are key to a sustainable energy policy today – efficiency, liberalization of the energy market and cooperation; the larger EU perspective is towards a better coordination between economic, foreign and energy policy.

Energy policy is central to Bulgaria economically, politically and strategically and consequently there is a need for an active public debate. Among the issues discussed was Bulgaria's dependency

on Russia regarding oil and gas supply. The future of the Belene nuclear power station at the Danube River was discussed as a possible solution for the future. In the UK, the increased use of renewable sources and efficiency in consumption are among the main objectives in this area.

Several possible scenarios of the energy policy development were discussed. A pessimistic view is that Russia sees its energy as a means to geopolitics - relations with Ukraine and Georgia illustrate Russia's capacity to divide. However, the positive view is that Russia needs and is willing to sell its gas and oil, and its pipelines are heading West. Europe should thus respond in several ways but should avoid the "divide and rule" strategy. First of all, it should express solidarity, i.e. the deals must be done with a view to fitting in transmission systems, serving a number of countries. Second, Europe should aim at a transparent and liberal market. Third, it should be considering the development of an alternative pipelines not based on a single European system.



UK Ambassador Jeremy Hill (left) and Mr. Philip Stephens

NATO's nuclear policy and non-proliferation of weapons of mass destruction (WMD) was discussed on 11 April 2006 at a round table discussion. The event provided more information and clarity regarding NATO's WMD policy. The main speaker was Mr. Guy Roberts, Deputy Assistant Secretary General for WMD Policy and Director of the Nuclear Policy Directorate. Participants in the round table were members of the Bulgarian Parliament, staff officers and representatives of the media.

The export control of dual-use items and arms is also an area in which CSD seeks to facilitate exchange of experience. On 22 - 23 May 2006 the CSD in cooperation with the Ministry of Foreign Affairs of Hungary, the Ministry of Foreign Affairs of Bulgaria organized an international seminar on "Export Control of Dual-Use Items and Arms: Industry Outreach". The seminar was part of the continuing implementation of the Joint Action Plan of Bulgaria and Hungary offering exchange of information, training and assistance to the countries from the Western Balkans – an initiative which started two years ago.

II. Policy Analyses

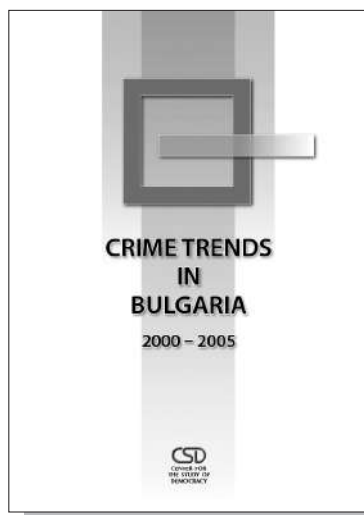
In 2006, CSD continued its work in the field of crime prevention with two areas of focus – analyzing crime trends and police stop-and-search practices.

In May, for a second year, the Center published a comprehensive analysis of **crime trends in Bulgaria**. CSD's study covered the period 2000-2005 and presented information about Bulgaria's crime rate from an alternative source - victimization surveys - and made a systematic comparison of the crime level according to victim-reported crime and police crime data. 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.



The seminar was attended by participants from five neighbouring countries in South-Eastern Europe - Albania, Bosnia and Herzegovina, Croatia, the Republic of Macedonia and Serbia and Montenegro



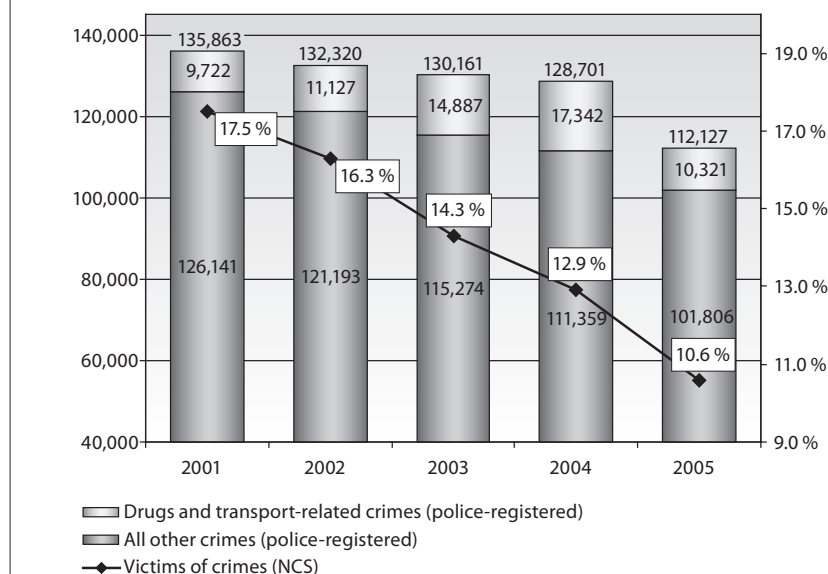
The current criteria for police work effectiveness—the clear-up rate and the number of registered crimes—should be reconsidered to increase the incentive of local police department heads to record all reported crimes. Possible approaches include: public accountability regarding the ratio between reported and registered crimes; introduction of a single registration number for registering reported crimes; awarenessraising campaigns on the ways of reporting a crime and the benefits of reporting. Only in this way could initiatives such as Community Policing practically promote closer contacts between the public and the police.

Crime Trends in Bulgaria
2000-2005, p.69

The study also compared the crime situation in Bulgaria to crime in a number of European countries. The findings of three national crime victims surveys, referred to throughout this

report as National Crime Surveys (NCS), offer an opportunity to assess street crime in Bulgaria in the period 2000–2005.

Figure 1. Police and NCS-registered crime (number of crimes and share of victims)



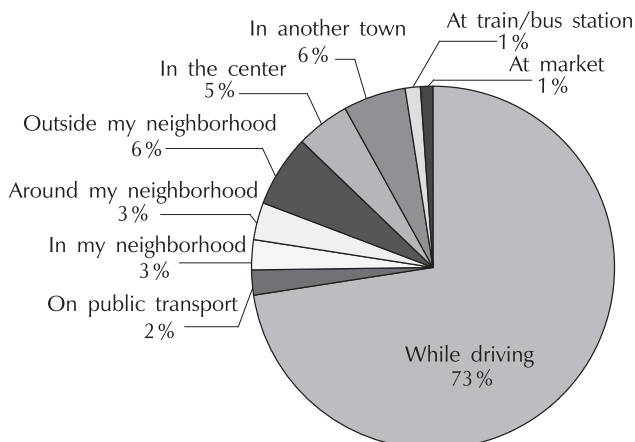


From left to right: Chief Commissioner Valentin Petrov, Director of the National Police Service, Mr. Boyko Kotsev, Deputy Minister of Interior, Amb. Jeremy Hill, Embassy of the UK in Bulgaria, Mr. Rumen Petkov, Minister of Interior of Bulgaria, Dr. Ognian Shentov, Chairman, CSD

The study was released at the public session of the National Crime Prevention Council held on 3 May 2006. At the meeting, the CSD analysis was discussed alongside the police report on *Dynamics of Recorded Crime and Crime Counteraction Measures of the National Police Service in the Period 2004 – 2005*.

In 2006, CSD published an analytical report *Police Stops and Ethnic Profiling in Bulgaria* examining the use of stops by the Bulgarian police, focusing on the practices of disproportionate stops of members of the Roma ethnic minority. The report also highlighted issues related to police abuse during stops as well as crime among Roma communities.

Figure 1. Police stops (June–November 2005)

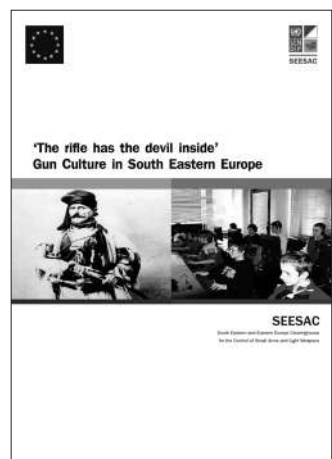


The study was part of a Europe-wide initiative, carried out jointly with the Open Society Justice Initiative, to map discriminatory police practices across Europe. In addition to Bulgaria, research was carried out in Spain, Hungary and Russia indicating that there is disproportionate treatment of minorities by the police in all these countries.

CSD's European Program was a major contributor to the study *The Rifle Has the Devil Inside: Gun Culture in South Eastern Europe* published in 2006 by South Eastern and Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC).

The report examines how cultural beliefs and practices influence gun ownership and use in SEE, and how these might affect small arms control interventions. An anthropological approach was taken to better understand the reasons for civilian gun ownership and use, and the ways in which society represents these behaviours, in Albania, Bosnia-Herzegovina, Bulgaria, Croatia,

Former Yugoslav Republic of Macedonia, Moldova, Serbia and Montenegro (including UN Administered Kosovo). A wide variety of research tools were used including household surveys conducted by SEESAC and UNDP, focus group transcripts, secondary literature searches, statistical data, anthropological field studies, the internet, print and electronic media.



Information Centre on the Council of Europe

Since 1993 the Center for the Study of Democracy hosts the Information Centre on the Council of Europe in Sofia (ICCE-Sofia). The Information Centre disseminates information about the Council of Europe (CoE) activities and offers technical assistance to the CoE delegations to Sofia. Herewith is a summary of some of the most important initiatives of the Information Centre in 2006, the final year in which it was hosted by CSD. Additional information is published at: www.cid.bg

Participation in the campaign to limit violence against children

The Information Centre organized a series of activities in the framework of the CoE initiative "To Build Europe for and with the Children", which was launched at the Monaco international conference (April 2006). At a press-conference in the aftermaths of the conference the ICCE and the State Agency for Child Protection informed the journalists about the campaign's priorities and about some related initiatives of the Bulgarian authorities. Another presentation of the children's campaign was organized at the ICCE premises for the members of the National Association of the European Clubs in Bulgaria. At the end of June, 2006 the ICCE in close cooperation with the Applied Research and Communication Fund organized a conference on "The Safer Use of Internet by Children". It was attended by representatives from the Bulgarian parliament, state agencies, firms in the communication technologies, NGOs and the media. The forum

was addressed by Mr. Svetoslav Spassov, Chairman of the Civic Council for Safer Internet. The conference contributed for the better dissemination of the Council of Europe initiatives in defense of children's rights.

The ICCE also published and disseminated with the assistance of the Ministry of Education and Science posters, containing the rules to be followed in order to limit children risk exposure in the Internet-space. These are to be distributed to all Bulgarian schools. A Council of Europe brochure was also published, containing the main goals and tasks in the framework of the European campaign for protection of children's rights.

In this context the ICCE organized series of lectures and discussions aimed at better informing the pupils about their rights. In coordination with the National Association of the European Clubs in Bulgaria teachers, psychologists and children discussed the prospects of introducing the School Ombudsman in selected secondary schools.

In June 2006, the ICCE jointly with a partner NGO – The Childhood without Tears Association – hosted a training seminar for magistrates on the prospects of improving the mechanisms for protecting the rights of children-witnesses of a crime in the framework of penal proceedings.

Cultural diversity as an antithesis to racism

The ICCE also took active part in another CoE all-European campaign aimed at fostering diversity and upholding human rights and inclusion, which focused on young people. In November, the Information Centre together with the Regional Inspectorate of Education in the town of Lovech organized a two-day regional training seminar on teaching diversity and multiculturalism. 10 secondary and primary school

directors and 10 teachers attended the training aimed at informing the audience about the European instruments in fostering multi-culturalism. In a parallel training exercise, schoolchildren from different ethnic groups took part in a drawing and essay competition. Participants in the seminar were lectured on the Council of Europe role in encouraging diversity, human rights and inclusion as opposed to racism and intolerance. A particular focus was laid on integration of Roma children and desegregation in the education field.

Part Two

Administration and Management

Administration and Management

Sound management and administrative support are key to CSD's excellence in achieving its mission and delivering on its goals in research and program development. The emerging donor environment, particularly in the wake of the withdrawal of major bilateral funding institutions from Bulgaria, requires that CSD adapts its financial management. In particular, in 2006 CSD has been preparing its internal procedures for working under the 2007-2013 EU financial instruments – the 7th Framework Programme, the Competitiveness and Innovation Framework Programme (CIP), the funding instruments in the JHA area, etc.

In 2006, CSD worked with USAID auditors on a financial and operational survey of the Center. The survey reviewed the organizational by-laws, policy for dealing with participation by the Board of Directors or audit committee in internal control matters, codes of conduct and ethics, human resources policy and procedures manual, procurement policy, etc. The audit made a contribution to upgrading CSD's travel and per diem policy, voting procedures by Governing Board members on subcontracting institutions within CSD's legal group, maintenance of time sheets, and a number of other management issues.

Accountability and transparency are the leading principles of CSD's financial and administrative management. They are also a key to CSD capacity commitment to being the watchdog of reforms in Bulgaria. This capacity has been built through a number of channels:

- publishing independent, annual audit reports (since 1992; CSD's financial statements and KPMG audit report for 2006 follow);
- performing audits of individual projects (since 1992);
- publishing annual reports (since 1994);
- uploading detailed information on CSD's activities on its website;
- 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 2006, CSD employed 40 staff of which 33 were professional and management, including part-time consultants, and 7 were administrative personnel. The Center also works with a significant number of external contributors.

List of Staff

Governing Board

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

Program Board

Boyko Todorov, Program Director
Alexander Stoyanov, Director of Research
Maria Yordanova, PhD, Director of Law Program
Ruslan Stefanov, Coordinator, Economic Program

Economic Program

Todor Yalamov, Project Coordinator
Konstantin Pashev, PhD, Senior Fellow
Boyan Belev, PhD, Senior Fellow
Assen Dyulgerov, Senior Fellow
Petkan Iliev, Senior Fellow
Daniela Mineva, Fellow
Lyubomir Stefanov, Project Assistant

Law Program

Dimitar Markov, Project Coordinator
Dragomira Paunova, Project Assistant
Galina Sapundjieva, Project Assistant
Rositsa Elazar, Administrator

Vitosha Research

Andrey Nonchev, PhD, Deputy Director
Slavyanka Ivanova, Project Manager
Margarita Tzvetkova, Project Manager
Ralitza Ruseva, Project Manager
Tihomir Bezlov, Senior Analyst
Hristo Hristov, Senior Researcher
Daniela Vasileva, Researcher
Antoaneta Getova, Researcher
Diana Zheleva, Researcher
Stanislava Kotulova, Office Manager
Tzvetoslava Tosheva, Cashier-Accountant

Information Centre on the Council of Europe, Sofia

Emil Tzenkov, PhD, Director
Maria Doichinova, Assistant

European Program

Boyko Noev, Ambassador, Director
Chavdar Chervenkov, Lieut. Gen. (ret.), Senior Fellow
Philip Gounev, Research Fellow
Milena Yordanova, Assistant

Administration

Mariana Yankova, Administrative Secretary
Yanita Georgieva, Executive Assistant
Alexander Gergov, LAN Administrator

Financial Department

Maria Georgieva, Chief Accountant
Lazarina Andonova, Cashier / Bookkeeper

Technical Support

Dimitar Dimitrov
Boyko Tasev
Alyosha Purvanov



General Assembly

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

Sources of Support and Cooperation

Center for Economic Development (CPHR), Bratislava
Center for European Reform, London
Center for International Private Enterprise (CIPE), Washington DC
Center for Liberal-Democratic Studies, Belgrade
Center for Social and Economic Research, Warsaw
CERGE-EI, Prague
Council of Europe
European Commission
European Union Agency for Fundamental Rights
European Ombudsman
European Parliament
European Public Law Center, Greece
Foreign and Commonwealth Office, UK
Friedrich Ebert Stiftung
Gallup Europe
Government of Japan
Government of Norway
Heritage Foundation
Home Office, UK
InterMedia Survey Institute, Washington DC
International Development Law Organization, Rome
London School of Economics and Political Science
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
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

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 2006
With Independent Auditors' Report Thereon



Independent Auditors' Report

To the General Assembly of
Center for the Study of Democracy

Sofia, 19 July 2007

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Center for the Study of Democracy, which comprise the balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Center for the Study of Democracy as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia, Bulgaria

Consolidated income statement

For the year ended 31 December 2006

<i>In BGN</i>	Note	2006	2005
Revenue	2	1,940,312	3,200,670
Cost of sales	3	<u>(1,806,475)</u>	<u>(2,990,013)</u>
Gross profit		133,837	210,657
Other operating income		-	299
Administrative expenses	4	(174,138)	(189,493)
Impairment losses	5	<u>-</u>	<u>(11,225)</u>
Result from operating activities		(40,301)	10,238
Financial income		46,538	125,752
Financial expenses		<u>(105,612)</u>	<u>(30,141)</u>
Net financing costs	6	(59,074)	95,611
Profit before income tax		(99,375)	105,849
Income tax expense	7	(8,930)	(23,179)
Profit for the period		<u><u>(108,305)</u></u>	<u><u>82,670</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.

 19 July 2007

Vladimir Yordanov


Executive Director

Consolidated balance sheet

As at 31 December 2006

<i>In BGN</i>	Note	2006	2005
Assets			
Property, plant and equipment	8	1,671,124	1,657,616
Intangible assets	9	27,629	8,760
Deferred tax assets	10	4,470	8,432
Total non-current assets		<u>1,703,223</u>	<u>1,674,808</u>
Inventories		31,094	253
Trade and other receivables	11	387,313	541,539
Cash and cash equivalents	12	1,125,860	930,327
Deferred expenses	13	76,716	42,839
Assets classified as held for sale		-	205,423
Total current assets		<u>1,620,983</u>	<u>1,720,381</u>
Total assets		<u>3,324,206</u>	<u>3,395,189</u>
Equity		2,997,856	3,106,161
Liabilities			
Deferred tax liabilities	10	2,709	4,797
Total non-current liabilities		<u>2,709</u>	<u>4,797</u>
Trade and other payables	14	193,665	103,209
Deferred financing	15	99,080	113,364
Tax payables		30,896	67,658
Total current liabilities		<u>323,641</u>	<u>284,231</u>
Total liabilities		<u>326,350</u>	<u>289,028</u>
Total equity and liabilities		<u>3,324,206</u>	<u>3,395,189</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.


19 July 2007

Vladimir Yordanov


Executive Director

Consolidated statement of changes in equity

For the year ended 31 December 2006

<i>In BGN</i>	Retained earnings
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>
Balance as at 1 January 2006	3,106,161
Recognised profit for 2006	(108,305)
Balance as at 31 December 2006	<u>2,997,856</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.

 19 July 2007


Vladimir Yordanov
Executive Director

Consolidated statement of cash flows

For the year ended 31 December 2006

<i>In BGN</i>	Note	2006	2005
Cash flows from operating activities			
Cash receipts from customers / donors		2,058,894	1,657,511
Cash paid to suppliers and employees		(1,695,704)	(1,971,928)
VAT refunded / (paid)		(127,563)	(124,227)
Cash receipts / (payments) from other operating activities		(139,725)	73,252
Cash generated from operations		95,902	(365,392)
Interest received		13,847	-
Interest paid		(2,624)	(5,267)
Income taxes paid		(28,185)	(9,359)
Net cash from operating activities		<u>78,940</u>	<u>(380,018)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		215,650	267,128
Proceeds from sale of equity investments		-	5,000
Acquisition of property, plant and equipment		(99,057)	(40,225)
Interest received		-	13,922
Net cash from investing activities		<u>116,593</u>	<u>245,825</u>
Net cash from financing activities		<u>-</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		195,533	(134,193)
Cash and cash equivalents at 1 January		930,327	1,064,520
Cash and cash equivalents at 31 December	12	<u><u>1,125,860</u></u>	<u><u>930,327</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.


 19 July 2007

 Vladimir Yordanov

Executive Director

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 2006 comprise the Organisation and its subsidiaries, Vitoshka 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 Vitoshka Research EOOD and Project 1 EOOD.

Vitoshka 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 23 July 2007.

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 21).

(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.

The preparation of the financial statements in compliance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimations and the basic assumptions are reviewed at each balance sheet date. The changes in estimates are accounted for in the period of the change or in the current period and in future periods when they are affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – Trade receivables;
- Note 13 – Deferred expenses,

as also the estimation of inventories.

(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 2006 is 1.48506 BGN/USD and as at 31 December 2005 is 1.6579. The average exchange rate for the year 2006 is 1.55944 BGN/USD. The official closing rate as at December 2006 of the EUR is 1.95583.

(e) Property, plant and equipment

(i) Initial recognition and subsequent measurement

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) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

(ii) Held-to-maturity investments

If the Company has the positive intent and the ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment losses (see significant accounting policy (h)).

(iii) Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than the impairment losses (see significant accounting policy (h)), and foreign exchange gains and losses and available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

(iv) Investments at fair value through profit and loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decision based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and changes therein are recognised in profit or loss.

(g) Financial instruments (continued)

(v) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(vi) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vii) Trade and other receivables

Trade and other receivables are stated at their amortised cost less accumulated impairment losses (refer to accounting policy (h)). Short-term receivables are stated at nominal cost.

(viii) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

(ix) Trade and other payables

Trade and other payables are stated at their amortised cost. Payables with short-term maturity are stated at nominal cost.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for sale financial asset recognised previously in equity is transferred profit or loss.

(h) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories (see significant accounting policy (i)) and deferred tax assets (see significant accounting policy (l)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

(i) 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.

(j) 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.

(j) Revenue (continued)

(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.

(k) Expenses

(i) Finance income and expense

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest rate method.

Dividend income is recognised on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised on profit or loss using the effective interest method.

(l) 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.

(l) Income tax (continued)

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.

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.

(m) 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.

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 related to social and economic research		Trading activities related to real estate property		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<i>In BGN</i>												
Revenue from:												
grants and contributions	1,122,647	1,157,370	-	-	-	-	-	-	-	-	1,122,647	1,157,370
sale of services	-	-	353,629	364,731	216,028	126,554	-	-	-	-	569,657	491,285
sale of property, plant and equipment	5,668	-	-	-	218,820	1,508,679	-	-	-	-	224,488	1,508,679
financing for fixed assets	23,520	43,336	-	-	-	-	-	-	-	-	23,520	43,336
Total revenue	1,151,835	1,200,706	353,629	364,731	434,848	1,635,233	-	-	-	-	1,940,312	3,200,670
Inter-segment revenue	-	-	9,632	-	62,730	50,350	(72,362)	(50,350)	-	-	-	-
Total revenue	1,151,835	1,200,706	363,261	364,731	497,578	1,685,583	(72,362)	(50,350)	(50,350)	(50,350)	1,940,312	3,200,670
Expenses on grants and contributions	(980,845)	(1,125,954)	-	-	-	-	-	-	-	-	(980,845)	(1,125,954)
Operating expenses related to trading activities	-	-	(351,328)	(317,906)	(474,302)	(1,546,153)	-	-	-	-	(825,630)	(1,864,059)
Inter - segment expenses	(72,362)	(50,350)	-	-	-	-	-	-	72,362	50,350	-	-
Cost of sales	(1,053,207)	(1,176,304)	(351,328)	(317,906)	(474,302)	(1,546,153)	72,362	50,350	72,362	50,350	(1,806,475)	(2,990,013)
Other income	-	299	-	-	-	-	-	-	-	-	-	299
Administrative expenses	(174,138)	(189,896)	-	-	-	-	-	-	-	403	(174,138)	(189,493)
Impairment losses	-	-	-	(11,225)	-	-	-	-	-	-	-	(11,225)
Gross profit	(75,510)	(165,195)	11,933	35,600	23,276	139,430	-	-	-	403	(40,301)	10,238
Net financing income/(costs)	(36,190)	114,231	(3,894)	1,261	(18,990)	(19,881)	-	-	-	-	(59,074)	95,611
Profit before tax	(111,700)	(50,964)	8,039	36,861	4,286	119,549	-	-	-	403	(99,375)	105,849
Income tax expense	-	-	(1,045)	(5,531)	6,689	(14,722)	(14,574)	(2,926)	(2,926)	(8,930)	(8,930)	(23,179)
Profit for the period	(111,700)	(50,964)	6,994	31,330	10,975	104,827	(14,574)	(2,523)	(14,574)	(2,523)	(108,305)	82,670
Total assets	2,816,104	2,950,414	348,963	243,939	1,893,670	1,955,834	(1,734,531)	(1,754,998)	(1,734,531)	(1,754,998)	3,324,206	3,395,189
Total liabilities	326,822	349,432	128,791	30,761	854,989	928,127	(984,252)	(1,019,292)	(984,252)	(1,019,292)	326,350	289,028
Cash flows from operating activities	137,758	(389,715)	(3,408)	24,968	(55,410)	(15,271)	-	-	-	-	78,940	(380,018)
Cash flows from investing activities	(42,149)	3,970	(20,170)	(7,094)	178,912	248,949	-	-	-	-	116,593	245,825
Cash flows from financing activities	-	230,000	-	-	-	(230,000)	-	-	-	-	-	-

Notes to the consolidated financial statements

2. Revenue

<i>In BGN</i>	2006	2005
Revenue from grants, contributions and projects		
US Agency for International Development/Consolidation of Anti-Corruption reforms in Bulgaria	535,628	-
Council of Europe – Information Centre on the Council of Europe Border Justice	95,445	126,791
NATO's transformation - Facing the new security borders	83,606	-
British Embassy – Establishment of a National Crime Prevention Council	70,000	-
The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession	60,877	84,912
British Embassy – Establishment and Promotion of Specialised Healthcare Ombudsman in Bulgaria with the purpose of tackling corruption in the Healthcare Service	48,847	-
European Community – Regional Innovation Strategy	27,612	57,144
NATO transformation	47,071	-
IBRD - Global Development Learning Network	24,376	-
Enhancing Democratic Governance in Bulgaria: Setting up the National Legal Framework for Public-Private Partnerships	17,840	21,665
UNDP – Gun Culture	17,599	-
Global Fix Management	14,893	16,054
The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession” - Austrian Embassy	12,000	-
Open Society Institute, New York – Ethnic Discrimination	11,132	-
Saferworld UK - Survey of the small arms and light weapons	10,213	29,224
USAID/DPK Consulting – <i>Coalition 2000</i> Anti-Corruption Program	861	14,785
British Embassy - Local Ombudsman: a new mechanism for human rights protection and good governance	-	157,125
European Community – Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	-	77,699
CIPE – Democratic Governance in Bulgaria – Using Public-Private Partnerships to Advance Economic Reforms	-	64,597
Norway Embassy - Security Perceptions and Doctrinal Approaches - Designing and Implementing Security Strategies	-	46,689
Japan Foundation - The Perspectives for Security and Stability in Southeast Europe	-	29,337
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	25,074
Other projects	44,647	43,376
	<u>1,122,647</u>	<u>1,157,370</u>
Revenue form sales of property, plant and equipment	224,488	1,508,679
Revenue from sales of services	569,657	491,285
Income from financing for fixed assets	23,520	43,336
	<u>1,940,312</u>	<u>3,200,670</u>

3. Cost of sales

<i>In BGN</i>	2006	2005
Net book value of property, plant and equipment sold	217,257	1,343,571
Hired services	1,117,865	989,077
Salaries and benefits	211,259	168,180
Depreciation	69,205	96,638
Supplies and consumables	51,132	42,127
Other expenses	139,757	350,420
	<u>1,806,475</u>	<u>2,990,013</u>

a) Expenses on grants, contributions and projects

<i>In BGN</i>	2006	2005
Net book value of property, plant and equipment sold	5,654	-
Hired services	673,610	583,774
Salaries and benefits	119,112	128,379
Depreciation	21,831	43,336
Supplies and consumables	37,209	34,051
Other expenses	123,429	336,414
	<u>980,845</u>	<u>1,125,954</u>

b) Expenses related to trading activities

<i>In BGN</i>	2006	2005
Net book value of property, plant and equipment sold	211,603	1,343,571
Hired services	444,255	405,303
Salaries and benefits	92,147	39,801
Depreciation	47,374	53,302
Supplies and consumables	13,923	8,076
Other expenses	16,328	14,006
	<u>825,630</u>	<u>1,864,059</u>

4. Administrative expenses

<i>In BGN</i>	2006	2005
Hired services	147,994	153,668
Salaries and benefits	3,557	5,738
Depreciation	12,495	18,812
Supplies and consumables	5,929	7,563
Other expenses	4,163	3,712
	<u>174,138</u>	<u>189,493</u>

5. Impairment losses

<i>In BGN</i>	2006	2005
Impairment losses on trade receivables	-	11,225
	<u>-</u>	<u>11,225</u>

6. Net financing costs

<i>In BGN</i>	2006	2005
Interest income	13,289	14,749
Interest expense	-	(839)
Foreign exchange gains	33,249	111,003
Foreign exchange losses	(102,591)	(23,439)
Other financial expenses	(3,021)	(5,863)
	<u>(59,074)</u>	<u>95,611</u>

7. Income tax expense

Recognised in the income statement

<i>In BGN</i>	2006	2005
<i>Current tax expense</i>		
Corporate tax	(7,056)	(23,114)
<i>Deferred tax expense</i>		
Origination and reversal of temporary tax differences	(993)	(65)
Reduction in tax rate	(881)	-
	<u>(1,874)</u>	<u>(65)</u>
Total income tax equipment	<u>(8,930)</u>	<u>(23,179)</u>

8. Property, plant and equipment

In BGN

	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Assets under construction	Total
Cost							
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>
Balance at 1 January 2006	1,260,693	223,692	228,056	95,838	2,304	347,133	2,157,716
Acquisitions	6,301	29,938	55,140	5,394	719	-	97,492
Disposals	-	(106,574)	(17,334)	(2,108)	-	-	(126,016)
Balance at 31 December 2006	<u>1,266,994</u>	<u>147,056</u>	<u>265,862</u>	<u>99,124</u>	<u>3,023</u>	<u>347,133</u>	<u>2,129,192</u>
Depreciation and impairment losses							
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>
Balance at 1 January 2006	39,785	184,328	185,400	78,484	893	11,210	500,100
Depreciation charge for the year	28,317	26,786	15,896	6,963	382	-	78,344
Disposals	-	(106,574)	(11,694)	(2,108)	-	-	(120,376)
Balance at 31 December 2006	<u>68,102</u>	<u>104,540</u>	<u>189,602</u>	<u>83,339</u>	<u>1,275</u>	<u>11,210</u>	<u>458,068</u>
Carrying amount							
At 1 January 2005	1,550,690	30,338	63,133	26,892	1,757	335,923	2,008,733
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>
At 1 January 2006	1,220,908	39,364	42,656	17,354	1,411	335,923	1,657,616
At 31 December 2006	<u>1,198,892</u>	<u>42,561</u>	<u>76,260</u>	<u>15,785</u>	<u>1,748</u>	<u>335,923</u>	<u>1,671,124</u>

9. Intangible assets

In BGN

	Software	Patents and licenses	Total
<i>Cost</i>			
Balance at 1 January 2005	15,012	412	15,424
Acquisitions	7,490	-	7,490
Balance at 31 December 2005	<u>22,502</u>	<u>412</u>	<u>22,914</u>
Balance at 1 January 2006	22,502	412	22,914
Acquisitions	22,224	-	22,224
Balance at 31 December 2006	<u>44,726</u>	<u>412</u>	<u>45,138</u>
<i>Amortisation and impairment losses</i>			
Balance at 1 January 2005	11,676	412	12,088
Amortisation charge for the year	2,066	-	2,066
Balance at 31 December 2005	<u>13,742</u>	<u>412</u>	<u>14,154</u>
Balance at 1 January 2006	13,481	412	14,154
Amortisation charge for the year	3,355	-	3,355
Balance at 31 December 2006	<u>17,097</u>	<u>412</u>	<u>17,509</u>
<i>Carrying amount</i>			
At 1 January 2005	3,336	-	3,336
At 31 December 2005	<u>8,760</u>	<u>-</u>	<u>8,760</u>
At 1 January 2006	8,760	-	8,760
At 31 December 2006	<u>27,629</u>	<u>-</u>	<u>27,629</u>

10. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2006 and 31 December 2005 are attributable to the following balance sheet items:

	31 December 2006		31 December 2005		31 December 2006	31 December 2005
<i>In BGN</i>	Assets	Liabilities	Assets	Liabilities	Net amount	Net amount
Property, plant and equipment	-	(2,709)	-	(2,696)	(2,709)	(2,696)
Trade receivables	516	-	-	(1,403)	516	(1,403)
Deferred expenses	-	-	3,283	-	-	3,283
Trade payables	3,954	-	5,149	(698)	3,954	4,451
<i>Net tax assets/(liabilities)</i>	<u>4,470</u>	<u>(2,709)</u>	<u>8,432</u>	<u>(4,797)</u>	<u>1,761</u>	<u>3,635</u>

10. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

<i>In BGN</i>	Balance as at 31 December 2005	Recognised in the income statement	Recognised in equity	Balance as at 31 December 2006
Property, plant and equipment	(2,696)	(13)	-	(2,709)
Trade receivables	(1,403)	1,919	-	516
Deferred expenses	3,283	(3,283)	-	-
Trade payables	4,451	(497)	-	3,954
Deferred tax assets/(liabilities)	<u>3,635</u>	<u>(1,874)</u>	-	<u>1,761</u>

The tax rate used for calculation of the deferred tax for 2006 is the rate defined by the Corporate Income Tax Act, which is 10% in force from 1 January 2007. At 31 December 2005 the deferred tax assets and liabilities were calculated using the tax rate for 2006 of 15%.

11 Trade and other receivables

<i>In BGN</i>	2006	2005
Receivables on completed projects	224,045	447,767
Trade receivables	134,692	72,414
Impairment losses	(11,225)	(11,225)
Tax receivables	10,014	5,543
Other	29,787	27,040
	<u>387,313</u>	<u>541,539</u>

12. Cash and cash equivalents

<i>In BGN</i>	2006	2005
Current bank accounts in local currency	149,010	190,022
Current bank accounts in foreign currency	350,735	180,226
Deposits in foreign currency	543,509	427,050
At bank	<u>1,043,254</u>	<u>797,298</u>
In local currency	76,609	129,229
In foreign currency	5,997	3,800
In hand	<u>82,606</u>	<u>133,029</u>
	<u>1,125,860</u>	<u>930,327</u>

13. Deferred expenses

<i>In BGN</i>	2006	2005
European Community – Regional Innovation Strategy	24,050	28,736
Global Governance, Regionalisation and Regulation: The Role of the EU - GARNET	8,290	-
Research and analytical report on Organized Crime in Bulgaria	2,589	-
Open Society – Ethnic Discrimination	-	7,306
UNDP – Gun Culture	-	4,019
	<u>34,929</u>	<u>40,061</u>
Insurances and others related to trading activities	41,787	2,778
	<u>76,716</u>	<u>42,839</u>

14. Trade and other payables

<i>In BGN</i>	2006	2005
Trade payables	114,178	49,854
Salaries, benefits and social security payable	<u>28,304</u>	<u>42,334</u>
Other payables	<u>51,183</u>	<u>11,021</u>
	<u>193,665</u>	<u>103,209</u>

15. Deferred financing

<i>In BGN</i>	2006	2005
Global Governance, Regionalisation and Regulation: The Role of the EU - GARNET	33,077	34,114
Publication of the CSD comments on the Law on Electronic Registry	9,780	-
British Embassy – Establishment of a National Crime Prevention Council	8,162	-
Research and analytical report on Organized Crime in Bulgaria	1,840	-
Border Justice	32	-
European Community – Regional Innovation Strategy	-	32,453
Open Society – Ethnic Discrimination	-	2,262
Deferred financing for project activities	<u>52,891</u>	<u>68,829</u>
Deferred financing for fixed assets	<u>46,189</u>	<u>44,535</u>
	<u>99,080</u>	<u>113,364</u>

16. 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>	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash at bank	12	0,1 -0,2%	499,745	499,745	-	-	-
Deposits at bank in foreign currency	12	2.5-3%	543,509	543,509	-	-	-
			1,043,254	1,043,254	-	-	-

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.

17. Related parties

During the year, the following transactions have taken place:

Related party	Transaction	January - December		31 December		31 December	
		2006	2005	2006	2005	2006	2005
		<i>Transactions value</i>		<i>Receivables balance outstanding</i>		<i>Payables balance outstanding</i>	
IR Communications EOOD	Market research with regard to IT communications	90,000	-	-	-	-	-
	Market research	3,000	-	-	-	-	-
ARC Consulting EOOD	Loan granted (principal)	8,500	-	-	-	-	-
	Loan granted (interest)	243	-	-	-	-	-
Applied Research & Communications Fund	Coalition 2000 partnership – USD 46,338	11,581	72,974	-	-	-	11,581
	Market research	31,684	-	-	-	-	-
	Rent contract	46,383	-	-	-	-	-

Bulgaria Online EOOD was a wholly-owned subsidiary of the Applied Research & Communications Fund until 17 November 2006 when it was sold to entities not related to the Group. The following transactions with Bulgaria Online EOOD have taken place during the year:

Related party	Transaction	January - December		31 December		31 December	
		2006	2005	2006	2005	2006	2005
		<i>Transactions value</i>		<i>Receivables balance outstanding</i>		<i>Payables balance outstanding</i>	
Bulgaria Online EOOD	Rent contract	11,350	-	-	-	-	-
Bulgaria Online EOOD	Market research	12,240	-	-	-	-	-
Bulgaria Online EOOD	Purchase-sale of a cargo vehicle	19,872	-	-	-	-	-
Bulgaria Online EOOD	Internet service provision	-	8,461	-	-	-	6,140
		<u>234,854</u>	<u>81,435</u>	-	-	-	<u>17,721</u>

17. Related parties (continued)

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>	2006	2005
Management Board	201,746	93,164

18. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

19. Subsequent events

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

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

- IFRS 7 "Financial Instruments: Disclosures" and amendment to IAS 1 "Presentation of Financial Statements": require detailed disclosure of the significance of financial instruments for an entity's financial position, as well as qualitative and quantitative information about exposure to risk. The new IFRS 7 and the amended IAS 1 will be valid for the period beginning on 1 January 2007 and will require additional disclosures related to financial instruments and equity.
- IFRS 8 Operating Segments (effective from 1 January 2007). The standard requires disclosure of segments based on components of the business, which the managements evaluates when taking operational decisions. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group does not expect the IFRS 8 to have an effect on the financial statements.
- Change in IAS 1 Presentation of financial statements (effective from 1 January 2007). As an additional change, due to IFRS 7 (see above), IAS 1 will require more comprehensive disclosure of entity's capital. This change will require more comprehensive disclosure of the equity structure of an entity.

20. 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 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" – will become mandatory for the Group's financial statements for 2007. The Group does not expect the interpretation to have an effect on the financial statements
- IFRIC 8 IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The Group does not expect IFRIC 8 to have an effect on the financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The interpretation concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group does not expect IFRIC 9 to have an effect on the financial statements.
- IFRIC 10 "Interim Financial Reporting and Impairment" (effective from 1 November 2006) - prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. The Group does not expect the interpretation to have an effect on the financial statements.
- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation requires share-based payment, for which an entity receives goods or services for its own equity instruments, to be accounted for as a share-based payment, based on shares, settled in shares, regardless of the method the equity instruments are received. The interpretation directs to whether share-based payments, where to suppliers of goods or services are issued equity instruments of the parent company, these should be accounted in the financial statements as settled in cash or in shares. The Group does not expect IFRIC 11 to have an effect on the financial statements.
- IFRIC 12 Service concession agreement (effective for annual periods beginning on or after 1 January 2008). The interpretation clarifies to the private sector companies certain aspects of disclosure and valuation issues, arising from the accounting for the public-private concession agreement. The Group does not expect IFRIC 12 to have an effect on the financial statements.

