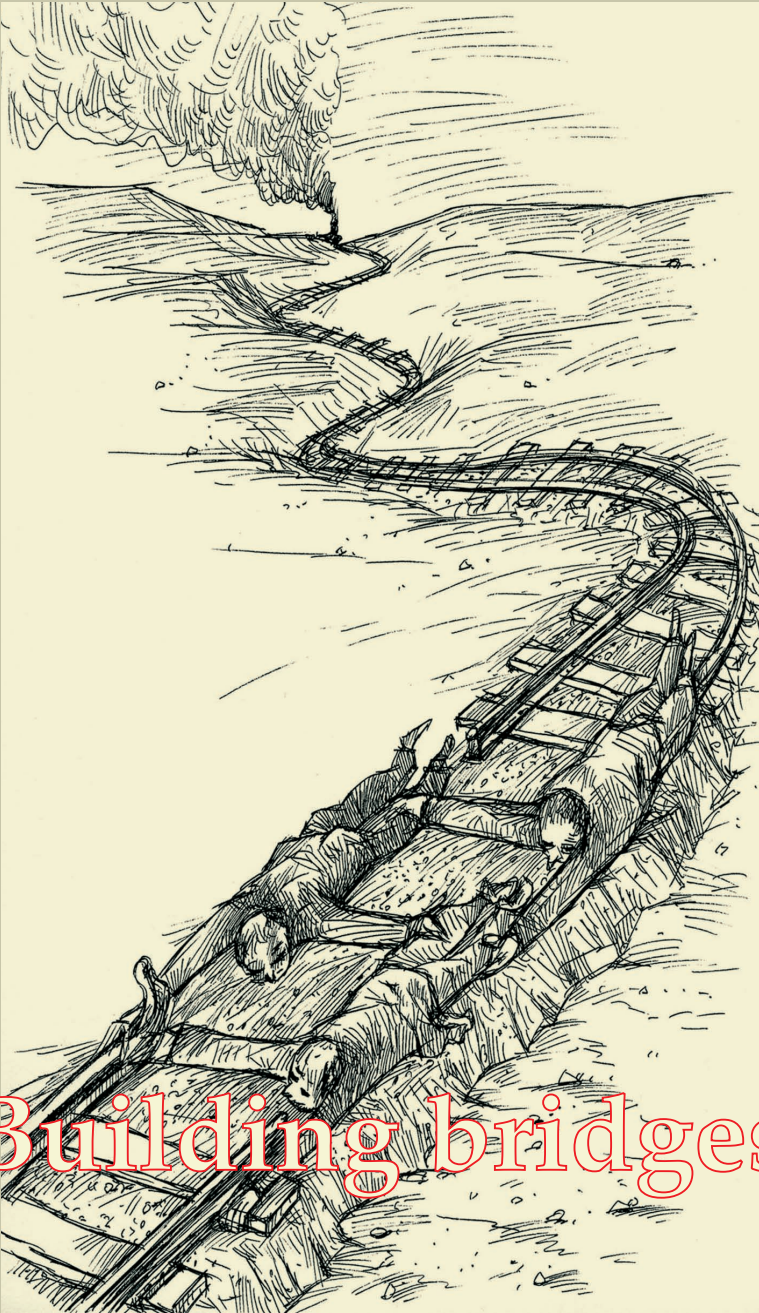


# CENTER FOR THE STUDY OF DEMOCRACY

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ANNUAL REPORT 2007



Building bridges

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**CENTER FOR THE STUDY OF DEMOCRACY  
2007 ANNUAL REPORT**



Drawing: Anri Koulev

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5 Alexander Zhendov St., 1113 Sofia, Bulgaria

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# Center for the Study of Democracy

*Building Bridges between Scholars and Policy Makers*

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

CSD objectives are:

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

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

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

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

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## Introduction

The first year of Bulgaria's EU membership, 2007 continued to be 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. Thus, CSD's watchdog and policy work was of utmost relevance to the initial adjustment of the country to the requirements of membership.

As regards **judicial reform**, the Center continued its efforts on enhancing effective justice at border districts, as the country became responsible for several of the external borders of the EU and border crossing-related offences and customs violations already represent a problem of **EU security**.

In the field of **policies against organized crime**, CSD launched a major analysis of the main black markets. The Center's report was one of the farthest-reaching studies of organized crime in Bulgaria analyzing the latest trends and manifestations - or market niches - of syndicate crime and its particularly damaging effects, and offers a historical review of the facts and available expertise in the area to draw conclusions about the origin, characteristics and developmental features of organized criminality in Bulgaria. For this purpose information from all available sources has been used and analyzed through several, complementary methods. Collecting empirical data about clandestine and hidden markets is a hard task, which can sometimes put the researchers at risk. The publication also enhanced public-private partnership in expert knowledge exchange as a main research approach favored by the Center.

**Analysis of crime trends** was pioneered by CSD in the beginning of the decade and was institutionalized through the **National Crime Surveys (NCS)** carried out by CSD on an annual basis. The NCS is now the authoritative source of data and analysis of the dynamics of conventional crime in Bulgaria.

As regards the latter, developing the infrastructure for **public-private partnerships** was in the spotlight of CSD's advocacy efforts to promote policies for countering corruption risks and improving **Bulgaria's capacity to manage EU Funds**. In 2007 CSD published an overview of best international and European practice on public-private partnerships, which aided its efforts on increasing the private sector participation in the policymaking process on raising public awareness on the importance of PPPs.

Building on its previous work, in 2007 CSD focused its efforts on the development of a **comprehensive methodology** for assessing both spread of corruption and impact of various anti-corruption policies to be employed by the government. The significance of the methodology was in its comprehensive approach to evaluating anti-corruption progress.



As a follow up, CSD worked on sharing the Bulgarian corruption benchmarking experience for the benefit of the future EU efforts in this area. CSD's initiative for the adoption within the EU of a common corruption benchmarking methodology, promoted in 2007 in cooperation with government and non-governmental partners, argues that diagnosing the state of corruption and obtaining reliable information about its dynamics are crucial to the implementation of successful prevention and control policies, including within the EU itself.

Sofia, February 2008



Dr. Ognian Shentov  
CSD Chairman

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# **Part One**

## **Program Reviews**



# Law Program

The CSD Law Program in 2007 followed the traditional directions of its activities: fostering the legislative and judicial reform and strengthening the institutions providing for the prevention of and fight against crime and the promotion of good governance and human rights. The work in these areas was influenced by Bulgaria's post-membership situation and the new socio-political trends in the country and the region.

## 2007 Highlights

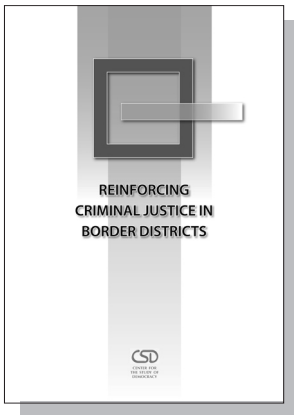
In the first year of Bulgaria's EU membership the CSD Law Program concentrated upon the newly arising aspects of several areas of activity, which it has already tackled in previous years, when Bulgaria was on its road to accession to the Union.

- In the field of **reinforcing and developing the criminal justice system**, the Program's efforts contributed to the combating, prevention and reduction of criminal activity. It continued focusing its efforts on reinforcing criminal justice and law enforcement in border districts, since Bulgaria has come to be responsible for several of the external borders of the EU and border crossing-related criminal offences and customs violations already represent a problem of EU security. The Program also started an assessment of the costs of crime repression, as well as provided technical assistance to the Bulgarian Criminal Asset Forfeiture Commission.
- In the area of **human rights**, 2007 saw the continued rise of the independent activity of the Bulgarian National Ombudsman and local public mediators as a vital instrument of good governance and human rights protection, whose introduction in Bulgaria is among the success stories of the Law Program and whose strengthening and interaction the Program continued supporting. CSD also operated for a second consecutive year as the Bulgarian National Focal Point (NFP) of the EU Fundamental Rights Agency, thus contributing to the prevention and counteraction of racism and xenophobia in key areas such as employment, housing, education, healthcare, legal issues and racist violence and crime.
- As part of its long-term commitment in the area of **commercial registration reform** the Law Program published a *Commentary of the Law on the Commercial Register* facilitating further the start of the new Central Electronic Commercial Register as a path for improving Bulgarian business environment. In order to assist the transition from a court to an administrative registration procedure, the Commentary is being disseminated among relevant state institutions, commercial entities and legal practitioners.

## I. Criminal Justice Reform

### *Reinforcing Criminal Justice in Border Districts*

The Law Program's initiative to help reinforce border security and criminal justice in the border districts stepped on the premise that, after Bulgaria's accession to the European Union, the country's frontiers with the Republic of Turkey, the Republic of Macedonia, the Republic of Serbia and the Black Sea became external borders of the EU. Hence, border crossing-related criminal offences and customs violations no longer represent a problem of Bulgarian national security alone: they have turned into a problem of EU security with the involvement of organized criminal groups and the breeding of genuine corruption threats to customs authorities, border policemen, investigative police officers and prosecutors and judges.



The work throughout the year comprised a training and exchange of experience component, the writing of a monitoring and needs assessment report *Reinforcing Criminal Justice in Border Districts*, its presentation to various audiences, and addressing the competent authorities and agencies with a comprehensive list of recommendations.

The training and exchange of experience component paralleled the preparation of the report and consisted of a series of events – a training seminar in January for Turkish magistrates, a focus group discussion in February with representatives of judicial and law enforcement bodies from the region on the border with the Republic of Macedonia, a roundtable in June featuring as a keynote speaker Mr. Ian Dawson, Prosecutor in the Crown Prosecution Service and Advisor of the Serious Organized Crime Agency, and two training workshops for representatives of the judicial and law enforcement bodies in Kyustendil and Burgas.

The **training seminar** gathered prosecutors from Edirne and Luleburgaz, as well as officials from the British Embassy in Turkey. The meeting was aimed to exchange information in connection with the preparation of the needs assessment and monitoring report on the state and the problems of detection and punishment of trans-border crimes, the training of the competent bodies, and the pilot application of recommendations in specific institutions from the border district. The necessity of a mechanism for enduring cooperation between the Bulgarian and Turkish institutions working in the area of administration of justice and law enforcement was emphasized and the specificities and differences between the Bulgarian and the Turkish judicial system were described. The Law Program experts' work on the preparation of the report for Bulgaria was dwelt upon, as well as the report's structure and the main phases in this process: engaging experts; collecting information about trans-border crimes from all institutions involved; analyzing the problems and proposing possibilities for their solution. The participants exchanged their views about the possibilities for more effective cooperation between Bulgarian and

Turkish institutions and the necessity of improving the legal framework in this direction. The Turkish representatives and members of the Law Program met with Mr. Kamen Mihov, Prosecutor in the Supreme Prosecution Office of Cassation and Head of International Legal Assistance Department. The conversations focused on the legal cooperation between Bulgaria and Turkey on cases of trans-border crimes with an accent on the existing difficulties and the unsolved problems.

The **focus group discussion in Kyustendil** became a valuable source of information about the state of cross-border criminality, the respective legislation and the existing problems in the region. Together with the focus group discussions in Haskovo and Burgas, held in 2006, and the statistical data collected from the competent judicial and law enforcement institu-

tions it served as a source of information for the development of the needs assessment and monitoring report.

At the **round table** in June, Mr. Ian Dawson made a presentation on the work of his office in England and Wales when countering trans-border criminality. He explained the structure of the law enforcement bodies in the UK and mentioned the problems of the international cooperation and the existing European mechanisms.

The round table brought together representatives of the judicial and law enforcement bodies involved in the detection, investigation and punishment of trans-border crimes, as well as officials from the Ministry of Justice and the National Institute of Justice. Other problems discussed further on were the significance of the close relationships between Bulgaria and its



*During the round table in June (from left to right):  
Mr. Gareth Roberts, Second Secretary in the British Embassy in Sofia,  
Maria Yordanova, Director of the CSD Law Program and  
Mr. Ian Dawson, Prosecutor in the Crown Prosecution Service and Advisor  
of the Serious Organized Crime Agency*

neighboring countries and the necessity of more investigating police officers and policemen in the Bulgarian border regions.

Among the main topics of the **training workshops** were the legal framework of the investigation and punishment of trans-border criminality, the analysis of the criminal justice and law enforcement in individual border districts, the international judicial cooperation in criminal matters and the recommendations to the respective institutions for improvement of the work on revealing, investigating and punishing the trans-border crimes. The peculiarities of the border areas were also debated, including the alarming statistics that the lack of clear statutory criteria for qualifying certain offences as crimes often results in opening administrative files for serious offences where the perpetrator should actually face criminal liability.

### *The Needs Assessment and Monitoring Report*

The needs assessment and monitoring report *Reinforcing Criminal Justice in*

*Border Districts* aimed at exploring and visualizing the general problems and specificities inherent in the detection, investigation into and prosecution of cross-border crimes and displaying the existing views about the legislative, organizational and technical measures indispensable to improve law enforcement and criminal justice in the areas that straddle Bulgaria's borders with the Republic of Turkey, the Republic of Macedonia and the Black Sea. The report relied on various sources of information: studies of the relevant legislative texts, a series of focus group discussions, interviews with senior state officials, survey of statistical data, etc.

After being distributed first at the training seminars in Kyustendil and Burgas, on November 13, 2007, the report was officially presented at a high profile round table, attended by judicial and law-enforcement officials, representatives of other state institutions, lawyers and foreign diplomats. The importance of the border justice topic for the entire European Union was underlined, since border districts are increasingly becoming a target of international organized crime, which,



*During the presentation of the report (from left to right):  
Mr. Rumen Nenkov, Deputy Chair of the Supreme Court of Cassation,  
Ambassador Steve Williams, British Ambassador to the Republic of Bulgaria,  
Dr. Ognian Shentov, Chairman of CSD, Mr. Rumen Petkov, Minister of Interior  
and Mr. Konstantin Penchev, Chairman of the Supreme Administrative Court*

however, still does not face adequate counteraction on the part of the institutions.

During the round table the participants discussed the general problems and specificities inherent in the detection, investigation into, and prosecution of offences relating to cross-border crimes. The legislative, organizational and technical measures indispensable to improve law enforcement and criminal justice in the border areas were strongly emphasized upon and the ensuing interventions by key state officials gave a good start to the practical implementation of the recommendations by various state bodies and institutions.

### *International and Regional Cooperation on Border Security Issues*

Globalization of security threats has given new incentives for consolidating regional and international cooperation for studying, preventing and countering border crime and terrorism. To contribute to the promotion of international cooperation members of the Law Program presented the results of the needs assessment and monitoring report at a number of **international events**.

- Dr. Maria Yordanova and Mr. Dimitar Markov from the Law Program took part in the *International Conference on Inter-Agency Cooperation to Tackle Cross Border Crime* (Istanbul, June 2007) and delivered a presentation on the findings of the needs assessment and monitoring report. The conference, organized by the British Embassy in Ankara, brought together senior representatives of Turkish institutions dealing with cross border crimes as well as speakers from the United Kingdom, Europol, Eurojust, etc.
- The results of the Law Program's efforts in the field of criminal justice

in border districts were presented at an international seminar in Ankara in August 2007. During the event, which was part of a capacity building project for the Turkish gendarmerie, Dr. Maria Yordanova and Mr. Dimitar Markov from the Law Program presented the major findings of the needs assessment and monitoring report and discussed some common border security problems for Bulgaria and Turkey.

- In December 2007 members of the Law Program took part in an international workshop on *Strengthening the cooperation in the fight against terrorism: legislation, institutions and proposals*. The event, held in New York, was organized by the Center for International Human Rights at John Jay College of Criminal Justice in close collaboration with the Greek Center for Security Studies (KE.ME.A.) and the Institute for Central-Eastern Europe and the Balkans of the University of Bologna as part of the Policing Across Borders project. Mr. Dimitar Markov reviewed the legal framework of illegal border crossing and smuggling of persons stressing on the necessity of effective border control for preventing and countering possible terrorism acts. Dr. Maria Yordanova talked about the international legal cooperation and the legal assistance against cross border crimes and terrorism emphasizing the importance of regional legal instruments and cooperation.

## **II. Enhancing Good Governance and Human Rights Protection**

In 2007 the Law Program continued working on the promotion and development of the ombudsman institution on national and local level and studying the similar and specific mechanisms for good governance and human rights protection.



Keeping track of the existing specialized ombudsman institutions in other countries as an important source of experience for the newly established Bulgarian ombudsmen a **working meeting with the Prisons and Probation Ombudsman for England and Wales Mr. Stephen Shaw** was organized in June 2007.

Mr. Shaw presented the work of his office, led by the belief that the prison institution could actually have a real instructive effect if applied properly, as well as some best practices, the ways prisoners' complaints (around 4500 per year) are dealt with and the Office's close work with the British Refugee Council. It was outlined that, when it comes to prisons, the English system includes three independent monitoring bodies with substantial formal power - the Independent Inspectorate, the Prisons and Probation Ombudsman and the Independent Monitoring Boards, whose members can perform checks at any time in any prison in the country. The Prisons and Probation Ombudsman is the newest institution, established in 1994

and vested with increasing powers: in 2001 probation was added in the scope of the Ombudsman; in 2004 the institution started investigating every death in prisons and in 2006 the Ombudsman started to work very closely with the immigration detention centers. As a result of the work of the Ombudsman, the situation in all prisons has changed towards the better, especially regarding their health care system - upon initiative of the Ombudsman the National Health Service is now in charge of the health care services in the English prisons. Mr. Shaw was also informed in detail about the Bulgarian ombudsman institution.

Fostering the interaction between the national Ombudsman and the local public mediators the Law Program held **three national meetings of local public mediators**, organized in April, May and July 2007 in the towns of, respectively, Veliko Tarnovo, Nova Zagora and Sofia. The meetings were devoted to the improvement of the cooperation of the local public mediators and the national



*During the meeting with the Prisons and Probation Ombudsman for England and Wales*

Ombudsman and the development of measures for recognition of their role for a better and more transparent government and protection of the civil rights. The relevant legal framework and the specific problems of local public mediators were also discussed. The National Association of the Local Public Mediators contributed actively to the organization of the events. They were attended by local public mediators from throughout the country, members of the Bulgarian Ombudsman's administrative staff, municipal officials, and representatives of the National Association of Municipalities in the Republic of Bulgaria.

Among the topics discussed were the necessity of good governance and good administration and the role of the institution as a method for civil control over the administration and the imperious legal framework changes for the better functioning of the office, as well as the necessity of the guarantees for the local mediators' independence, including the introduction of the so-called delegated budgets, by which the

mediators will be able to make their own arrangements. Better mechanisms, including legislative amendments in the Law on the Ombudsman, were also said to be needed for interaction, mutual assistance and exchange of information between the national Ombudsman and the local public mediators as a very substantial factor in the transfer of powers and resources, as well as more active participation in the development of rules and regulations within the municipal councils. The full support of the national Ombudsman was declared to the work of the local public mediators - a big part of the citizens' complaints, sent to the Ombudsman of the Republic of Bulgaria, referred to the scope of powers of the local mediators, which even more necessitated a better interaction mechanism to be elaborated.

As regards the work of the local public mediators, some of the difficulties they face were mentioned such as the lack of a preliminarily provided budget, of premises and appropriate work conditions, the need to be formally appointed



*During the national meeting of local public mediators in Sofia*

by the local mayor, which puts them in a vulnerable position, etc. For some local public mediators there is a prohibition for membership in NGOs, which prevents their acceptance in the National Association of Local Public Mediators and makes it necessary for the municipal councils in these municipalities to vote a special decision to allow such membership. The need for amending the legal framework was expressed to give the opportunity to the public mediators to make suggestions during the sessions of the municipal councils. Positive experiences and stories of unsolved problems were shared, together with a proposal to develop a platform allowing the local public mediators to exchange experience. The possible ways of cooperation were presented between the ombudsmen institutions on both national and local level and the civil society, since many civil organizations in Bulgaria have a significant potential in different areas, which, along with the accessibility of these organizations for the citizens, could be of a great use to the local public mediators, not only in their work on specific cases but also for raising public awareness of their operation.

The idea of the national Ombudsman was discussed to establish regional offices throughout the country and the necessity of legislative regulation of the local mediators' relationships with the national Ombudsman, including the possibility of forwarding complaints between the national and the municipal institutions. Proposals were made for the introduction of an obligation for every municipal council to elect a public mediator.

The participants in the national meetings debated on the Draft Law on Local Self-Government, proposed by the National Association of Municipalities in the Republic of Bulgaria, as well as on

a wide range of necessary changes, consolidating the independence of the local mediators, their election, statute and activity and their role of guarantees for better administrative services and observance of the civil rights. The idea of elaborating unified regulations, governing their status and activities, was referred to as well. Some other issues were also discussed, such as the standardization of the terms of office, the local ombudsmen's legal status, the possibilities for the public mediators to participate in the municipal councils' sessions, the proposals for introducing delegated budgets and for changing the majority for the election of a public mediator from 2/3 to 1/2.

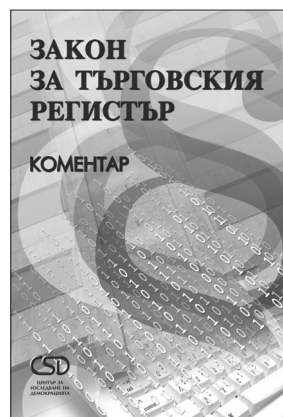
### III. Commercial Registration Reform

In 2007, the *Commentary of the Law on the Commercial Register* was written by renowned experts of the Law Program – lawyers, working in the fields of commercial and civil law. It preceded the much awaited entry into force of the Law on the Commercial Register scheduled for January 2008, which would start the long deferred, but much needed reform in the system of commercial registration. Following up on its experience with the legislative regulation of the Central Pledges Register and the electronic document and electronic signature the Law Program drafted a concept for the development of an Electronic Registries Center and took part in the development of the Law on the Commercial Register. The Commentary aims at supporting the reform and facilitating the use and provision of register services.

The book was officially presented by its authors in December 2007. The event was attended by the Deputy Minister of Justice Ms. Ana Karaivanova, officials from the Registry Agency, many law-

yers and journalists. The participants expressed their hope that there would be no more postponements of the entry into force of the law. Deputy Minister Karaivanova presented the work of the Ministry of Justice on the pilot application of the law and added that reforms do not begin nor end with the drafting of the law, but need adequate facilities and good implementers. In her opinion, the electronic register would largely contribute to the unification of practices in commercial registration and, despite the fact that there were still a lot of vacancies in the Registry Agency, the electronic commercial register should be able to start without further delay.

On the part of the authors, it was noted that, although there was certain experience gathered in the work of other electronic registers, the volume of work



of the commercial register would be much bigger – around 2000 registrations a day for the whole country. An example of a successful electronic register was given, apart from the Central Pledges Register – the register of law firms, which functioned electronically



*During the presentation of the Commentary (from left to right):  
Mr. Borislav Belazelkov, Supreme Court of Cassation Judge, Dr. Maria Yordanova,  
Director of the CSD Law Program, Ms. Ana Karaivanova, Deputy Minister of Justice  
and Mr. George Dimitrov, attorney-at-law*

and saved a lot of time and paper. The great importance of the electronic commercial register for the economic environment in the country was emphasized, as well as the hope that it would guarantee transparency and efficiency and give opportunities to Bulgarians to improve their economic situation.

#### IV. Preventing and Reducing Crime

##### *Assessing the costs of crime repression*

In May 2007 in partnership with nine academic institutions and non-governmental organizations from Italy, Spain, Portugal, Germany, Latvia, Cyprus, Hungary and Turkey, the Law Program started working on **assessing the costs of crime repression**. The main goal of the initiative is, based on an assessment of direct and indirect costs of penal policies, to develop measures for improving the efficiency of crime

repression and new conceptual tools and effective strategies for prevention and reduction of criminality, including terrorism and drug-related crimes. The initiative also intends to allow an evaluation of crime costs with special concern for costs associated to recidivism and to the functioning of penal and penitentiary systems, aiming at reducing it.

Members of the Law Program took part in the kick off meeting of the initiative (Florence, May 2007) and the first of a series of workshops (Barcelona, November 2007). For the workshop in Barcelona the Law Program prepared two presentations *Penitentiary System in Bulgaria and Drug-Related Crime and Drug Use in Prisons*.

##### *Strengthening crime repression institutions*

Throughout 2007 the Law Program continued its efforts to assist the fur-



*During the asset forfeiture round table in Sofia (from left to right): Mr. Nikolai Lachkov, Inspector in the Sofia Territorial Directorate of the Bulgarian Criminal Asset Forfeiture Commission, Prof. Stoyan Kushlev, Chair of the Commission and Mr. John O'Mahoney, Chief Officer of the Irish Criminal Assets Bureau*

ther development of **criminal asset forfeiture** in Bulgaria by contributing to the institutional strengthening of the Bulgarian Criminal Asset Forfeiture Commission and ensuring opportunities for exchange of experience with countries, where asset forfeiture has had a long history.

In November 2007 the Law Program jointly with the Embassy of Ireland in Sofia organized a round table discussion on *Criminal Assets Recovery: Irish and Bulgarian Experience*. The operation of the Irish Criminal Assets Bureau (CAB) was presented by Chief Bureau Officer John O'Mahoney, who spoke to an audience of diplomats, prosecutors, customs officials, representatives of the National Institute of Justice and the Bulgarian Criminal Asset Forfeiture Commission and many journalists.

The history of criminal asset recovery in Ireland was recalled, starting with the murders of Detective Garda Gerry McCabe and journalist Veronica Guerin in 1996, which served as a catalyst and forced the Irish government to undertake measures about organized crime, bringing together police, financial authorities and social welfare services to go after criminals' financial assets. The Irish CAB, created thereafter, was entrusted with identifying, freezing and seizing of criminal assets, combining the efforts of police forces, revenue officials and social welfare services to investigate the money trail of organized crime, to make applications, freeze assets and after 7 years of receivership bring them back to the state budget under a civil standard of proof and needing no criminal conviction on the part of the court. The efforts of the Bureau have resulted in over 120 million Euro of seized proceeds of crime, 2 million Euro of welfare savings and 150 million Euro of taxes collected. Prof. Stoyan Kushlev, Chair of the Bulgarian Criminal Asset

Forfeiture Commission, reminded that the Bulgarian Law on Criminal Asset Forfeiture used the Irish example, but at the same time turned out to be weaker in certain aspects, including the inability to seize unlawfully received social welfare, the need for a criminal conviction in order to start assets recovery proceedings and the slow, three-instance court proceedings. Still, despite its weaker legal framework, the Bulgarian Commission has still achieved significant practical results in terms of injunctions and proceedings opened.

On December 5, 2007, in Washington DC, the Center for the Study of Democracy and the Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) of the US Department of Justice organized a round table discussion on *Asset Forfeiture in Bulgaria: Policies and First Results*. In his opening remarks OPDAT Director Carl Alexandre outlined the importance of asset forfeiture for effectively countering organized crime. Stressing on the need of enhanced international cooperation Mr. Alexandre confirmed the readiness of OPDAT to provide assistance for further strengthening the Bulgarian Asset Forfeiture Commission, which, according to him, has already achieved significant results despite being set up only two years ago. Prof. Kushlev mentioned some the shortcomings of the asset forfeiture legislation that impede the effective operation of the Commission and shared his views on some legislative amendments that might improve the Commission's activities. Mr. Dimitar Markov, Project Coordinator at the CSD Law Program, briefed the participants on the role of the civil society in the process of introducing asset forfeiture in Bulgaria. He presented the series of activities organized by CSD during the drafting of the asset forfeiture legislation and outlined the way civil

society may further cooperate with the Asset Forfeiture Commission, e.g. in raising public awareness, organization of trainings, monitoring, etc. The event was hoped to streamline the cooperation between the Bulgarian Asset Forfeiture Commission and its US counterparts to more effectively counter international organized crime.

## **V. Monitoring of Racism and Xenophobia**

In 2007 CSD operated for the second consecutive year the Bulgarian National Focal Point (NFP) of the EU Fundamental Rights Agency (the successor since March 2007 of the European Monitoring Centre on Racism and Xenophobia). The NFP is part of the European Racism and Xenophobia Information Network (RAXEN), coordinated by the Fundamental Rights Agency (FRA) and comprised of NFPs in each of

the EU Member States. Operating the Bulgarian NFP the Center through its Law Program was responsible for collecting official and unofficial data on racism and xenophobia in the country in areas such as employment, housing, education, healthcare, legal issues and racist violence and crime. The information was submitted to the FRA by CSD in the form of a national data collection report and a series of regular bulletins. The national data collection report assessed the situation with racism and xenophobia in Bulgaria and the measures for their prevention and counteraction. A large part of the information collected was included in the FRA's Annual Report on the problems of racism and xenophobia in the Union. The series of bulletins included current information on racism and xenophobia such as important legal developments, incidents of discrimination, research and studies, public events, etc.

## Economic Program

In 2007, the Economic Program focused its work on four thematic areas: informal economy and anti-corruption, in particular in the areas of public procurement and healthcare; introducing public-private partnerships in Bulgaria; regional innovation policy and development; and competitiveness of the Bulgarian economy.

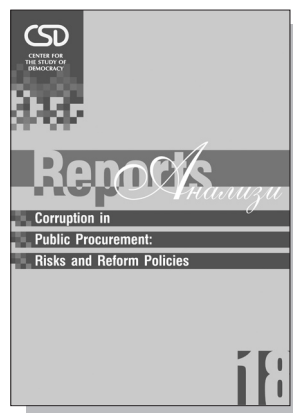
### 2007 Highlights

- The Economic Program continued its work on monitoring and policy-analysis of the **hidden economy and related corruption practices** in Bulgaria. In 2007 CSD focused its policy recommendations on anti-corruption in public procurement and in healthcare in Bulgaria. The Hidden Economy Index remained roughly flat for a second consecutive year.
- Developing the infrastructure for **public-private partnerships** was in the spotlight of the Economic Program's **advocacy efforts to promote policies for countering corruption risks** and improving Bulgaria's capacity to manage EU Funds. In 2007 CSD published an overview of best international and European practice on public-private partnerships, which aided its efforts on increasing the private sector participation in the policymaking process and on raising public awareness on the importance of PPPs.
- With the partnership of CSD this year Bulgaria was included for the second time in the world's oldest and most comprehensive annual report on **competitiveness** - the World Competitiveness Yearbook of IMD (International Institute for Management Development). The Bulgarian economy kept its position unchanged compared to the previous year's ranking, though business efficiency declined in 2007.
- CSD enhanced its impact on regional level policy making through the implementation of the RIS BRIDGE initiative – **introducing innovation strategy and policy in the Southwest Region of Bulgaria**.
- In 2007 CSD continued its work with the Global Development Learning Network (GDLN) through its **Distance Learning Center**. The center delivered series of videoconferences on key development topics: SMEs and access to finance; regional competitiveness; investment climate, etc.



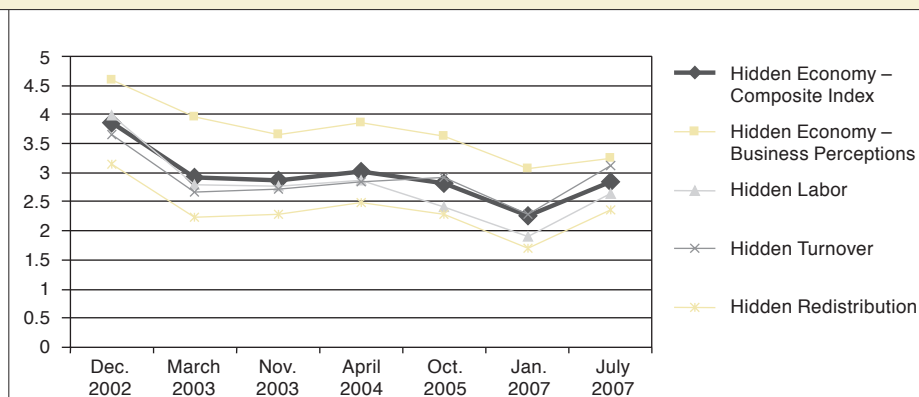
## I. Informal Economy and Anti-Corruption

In 2007 the Center for the Study of Democracy released for the fifth consecutive year the **Hidden Economy Index**. The data showed a slight increase in the level of the informal economy in Bulgaria in mid 2007 compared to the beginning of the year, which marked a return to the 2005 index level. CSD took part in the initiative „Na svetlo“ (In the light), initiated by the business and the Government of Bulgaria. On 19 June 2007 Mr. Petkan Iliev, Senior Fellow at the Economic Program of the Center for the Study of Democracy participated at a discussion round-table “The Grey Economy: Impact on the Development of Bulgaria and Measures to Address the Problems,” which was organized in the framework of the initiative. He presented the latest data of the Hidden Economy Index 2007, revealing the spread and trends in the informal economy activities in Bulgaria. He also made specific recommendations for improving the business environment for limiting the negative impact of the informal economy in the country.



**Public procurement** is among the areas of public sector management in Bulgaria which are characterized by the highest corruption risk. Corruption abuses in public procurement abound in all stages of the process but their overall pattern is one: awarding a contract to a pre-selected bidder to the detriment of public interest through violation of the principles of fair competition with the aim of gaining personal benefit. To aid the government’s anti-corruption policy CSD delivered the report *Corruption in Public Procurement: Risks and Reform Policies*, which examines corruption in public procurement and

**Figure 1. Hidden Economy Index Dynamics**

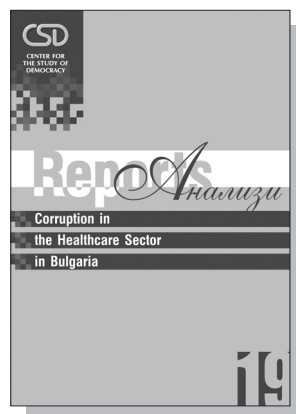


assesses fiscal and social losses from it. The report pays special attention to the problems of **grand corruption in public procurement**. The report puts the **fiscal loss from corruption in public procurement in 2006 alone at BGN 1.2 billion** (EUR 614 million) – an amount, commensurate with the expected annual EU Funds' commitments for Bulgaria for the next 2-3 years. The report explores in depth the corruption risks in public procurement in the Bulgarian **energy sector** – the sector with the highest number of public procurement contracts for the past couple of years in the country. In this context, the report points out the low capacity of the Bulgarian audit and control system to monitor and check large public procurement tenders, which have the highest potential negative corruption impact. CSD will continue to watch over this very sensitive area of the Bulgarian economy and politics especially in the light of the expected steep increase of financing, available to Bulgaria under the **European Funds** for the period 2007-2013.



The report *Corruption in Public Procurement: Risks and Reform Policies* was presented on 16 May 2007 at a round table, organized by CSD and the Anti-Corruption Committee of the Bulgarian Parliament. The English version of the report was presented on 26 June 2007. The authors, Dr. Konstantin Pashev and Mr. Assen Dyulgerov, Senior Fellows at the Economic Program of the Center

for the Study of Democracy, presented possible policy measures for countering corruption in public procurement, including a **system for monitoring corruption risks in procurement**.



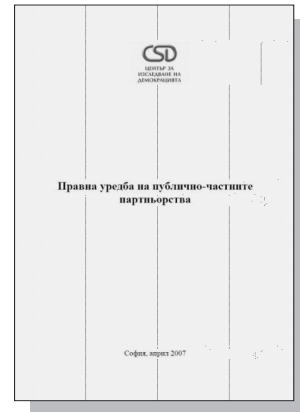
The second specific economic anti-corruption focus of the CSD team in 2007 was the **healthcare sector** in Bulgaria. CSD published the report *Corruption in the Healthcare Sector in Bulgaria*, which analyses the causes and consequences of corruption in the healthcare sector of the country at a time of heightened social sensitivity to persisting problems in the Bulgarian healthcare system. In the context of slow institutional reforms the report reveals the incentives of medical personnel for corruption, as well as the size and scope of corruption in the Bulgarian healthcare system. The report points out that CSD's Corruption Monitoring System, which follows the level and spread of corruption in Bulgaria, shows that it is rising in the healthcare sector. At the public presentation of the report Mr. Boyko Velikov, Chairman of the Parliamentary Anti-Corruption Committee underlined that **the level of corruption in healthcare had long passed the tolerance limit of the Bulgarian society**. The author of the report Dr. Konstantin Pashev, Senior Fellow at the Economic Program of the Center for the Study of Democracy noted

that about 40% of the citizens identified healthcare as one of the spheres with highest level of corruption in 2007. Thus healthcare rates the third most corrupt public service after customs and the judiciary in Bulgaria. Doctors, however, rated as the most corrupt in CSD's Corruption Monitoring System in 2007 when the citizens were asked to reveal their personal experience with corruption pressure.

## II. Developing Public-Private Partnerships in Bulgaria

In 2007 the Center for the Study of Democracy started an initiative for **promoting democratic governance in Bulgaria by establishing a national legal framework for public-private partnerships (PPPs)**. The objective of the initiative was the increase of private sector participation in the policymaking process by provision of the necessary institutional framework and the raising of public awareness on the importance of PPPs.

CSD published a brochure, which provides overview of the regulatory arrangements and the practical implementation of public-private partnerships in 11 countries. The brochure was presented to four Bulgarian ministries, the Sofia Municipality, various associations and NGOs. Following a series of consultations with public and private sector stakeholders and a study of the US experience in PPP, CSD proposed to the Bulgarian Ministry of Finance the establishment of a **Public Private Partnerships Initiative in Bulgaria**. The Initiative aims at providing a platform for transparent and long-term engagement of local and international businesses, non-governmental organizations and public bodies in formulating policies and carrying out joint projects through PPPs.



The brochure *Legal Framework of Public-Private Partnerships* makes an overview of the regulatory arrangements of public-private partnerships in USA, Canada, United Kingdom, Austria, the Czech Republic, France, Germany, Greece, Ireland, Italy and Poland as well as relevant European Union legislation. The profiles of the different countries allow comparison between the regulation of PPPs in them along three lines:

- definition of PPPs;
- types of PPPs;
- application of PPPs.

The publication identifies the major types of public-private partnerships and juxtaposes them with the existing Bulgarian legislation. The paper concludes that **the current Bulgarian legislation leaves outside its scope any PPP relations but the classic forms such as public procurement and concessions** thus limiting the possibilities for cooperation between the public and private sector, including in sectors, which are in need of large investments and private expertise, such as water and ecological infrastructures, social infrastructure, etc.

On 13 June 2007 the Center for International Private Enterprise (CIPE), the

Federal City Council, Washington and the Center for the Study of Democracy, Sofia organized a round table “Building Public-Private Partnerships: The Experience of Bulgaria” in Washington D.C. Key note speaker at the event was the Mayor of Sofia Mr. Boyko Borissov who presented the possibilities for public-private partnerships in financing and implementing infrastructure projects in Sofia. The hosts from the Federal City Council outlined their 30 years of experience in public-private partnerships in Washington D.C.

### III. Competitiveness and Innovation

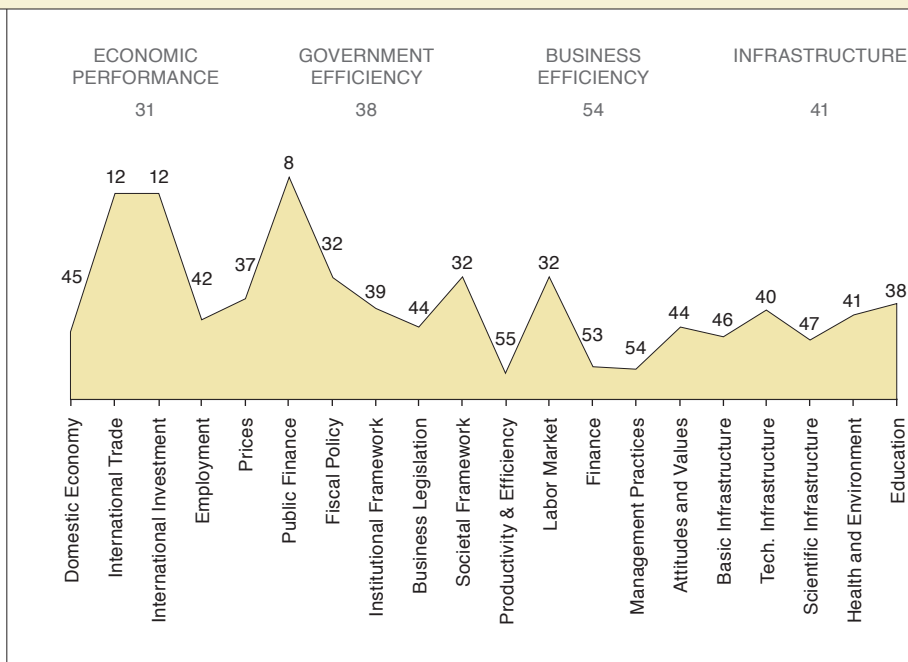
The Center for the Study of Democracy continued its work on the development of Regional Innovation Strategy for South West Planning Region of Bulgaria and measuring the competitiveness of Bulgaria.

With the partnership of CSD in 2007 Bulgaria was included for the second time in the World’s **oldest and most comprehensive annual report on competitiveness**-the World Competitiveness Yearbook of IMD (International Institute for Management Development). For seventeen years (since 1989) the report ranks and analyzes how the economic environment in more than 60 nations creates and sustains the competitiveness of enterprises. Bulgaria’s competitiveness was covered and ranked together with 54 other leading world economies. This year Bulgaria ranked 41st on overall competitiveness, surpassing Italy, Romania, Ukraine, Turkey, Poland, and Croatia among others. In 2007 Bulgaria has largely kept unchanged its position compared to the previous year, though according to the index its **business efficiency declined**. According to the data **the greatest challenge** for Bulgaria in the medium



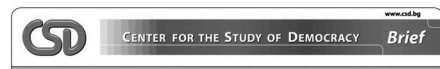
*From left to right: Mr. Tzvetan Tzvetanov, former Deputy Mayor of Sofia; the interpreter of the meeting; Mr. Boyko Borissov, Mayor of Sofia; Mr. John Hill, CEO of Federal City Council and Mr. Christo Gudjev, Charge d’Affaires, Bulgarian Embassy in Washington*

**Figure 2. Competitiveness Landscape of Bulgaria 2007**



and long terms is the **improvement of human capital**. In the short term the challenges are related to improvement of the business environment and corporate governance practices in medium and big Bulgarian companies. CSD presented the results and conclusions of the ranking at a press conference “International Competitiveness of Bulgaria 2007” on 9 May 2007, as well as at a seminar “Competitiveness of the Bulgarian Economy”, organized by the Ministry of Economy and Energy on 14 November 2007.

CSD put forward the main results and conclusions from the 2007 competitiveness ranking in a policy brief *The Competitiveness of the Bulgarian Economy 2007*. The brief was communicated to Bulgarian ministries and the Bulgarian Parliament. The Minister of Economy and Energy referred to the conclusions



September 2007, No 12

**COMPETITIVENESS OF THE BULGARIAN ECONOMY 2007**

With the partnership of CSD this year Bulgaria was included for the second time in the world oldest and most comprehensive annual report on competitiveness, the IMD World Competitiveness Yearbook 2007. It has been published without interruption since 1989 by IMD (International Institute for Management Development). Bulgaria's competitiveness was covered and ranked together with 54 other leading world economies. The annual rankings are mainly a respected source for large international investors, but they also highlight to the public and policy-makers the strengths and weaknesses of the Bulgarian economy by focusing on the most crucial areas grouped around four main factors: economic performance; government efficiency; business efficiency; and infrastructure—in science and technology, human capital, health, and education.

This year Bulgaria came 41<sup>st</sup> on the scoreboard, surpassing Italy, Romania, Ukraine, Turkey, Poland, and Croatia among others. The position is an achievement in its own right, considering that the country is measured up against the champion nations setting the trends in the world economic competition. Two pieces of bad news are present, though. First, Bulgaria has not progressed compared to its last year ranking; in contrast to similar countries, such as Italy and Romania, for instance, which have moved with five-six positions up the scale. Second, the decline of the business efficiency component as against last year's index is another cause for concern.

**Bulgarian business competitiveness in decline**

In 2007 Bulgaria has largely kept its position compared to the previous year, but its **business efficiency has declined**. From the 42<sup>nd</sup> place that Bulgaria occupied in 2006, it has fallen to 54<sup>th</sup> place in terms of business efficiency. Meanwhile, the country's overall economic performance has improved. With regard to infrastructure Bulgaria now ranks 41<sup>st</sup>.

**MAIN CHALLENGES**

For a second year in a row the world competitiveness report has recommended that Bulgaria takes **urgent, relevant measures to meet the following challenges:**

- The main short-term challenge is to improve business environment and corporate governance.
- Promote the competitiveness of private businesses.
- Enhance efficiency and productivity.
- Improve basic infrastructure and increase R&D expenditure.
- Improve healthcare and environmental protection.
- Encourage innovation, high-tech export and technological cooperation.
- Reduce administrative discretion, bureaucracy and corruption.

This brief was drafted by a Center for the Study of Democracy team. Its content can be reproduced free of charge without requiring specific permission, but reference must be made to the source and the CSD webpage ([www.csd.bg](http://www.csd.bg)) must be linked.

of the analysis in his presentation of the Government's priorities for 2008. Some of the main recommendations for policy actions in the policy brief are:

- Improving the business environment and the corporate governance;
- Improving basic infrastructure and investing in science;
- Promoting innovation, high-tech export and cooperation.



*Ms. Yvonne McCarthy, Research Analyst at the Economic and Social Research Institute and Central Bank of Ireland*

On 14 June 2007 the Center for the Study of Democracy and the Irish Embassy in Bulgaria organized a round table discussion on the topic "Ireland's Road into the EU: the Economy" with guest speaker Ms Yvonne McCarthy, Research Analyst at the Economic and Social Research Institute and Central Bank of Ireland. She described the dramatic changes in the Irish economy since 1988 with a **focus on the impact of immigration**. During the discussion Ms McCarthy elaborated that the **EU Structural Funds have been successfully employed in creating the pre-conditions for growth in the Irish economy**. They were used for the **improvement of education**, which was instrumental in creating a skillful labour force.



In 2007 CSD continued its work on regional level in Bulgaria through the **development of the Regional Innovation Strategy for the South West Planning Region of Bulgaria (RIS BRIDGE)**. The RIS BRIDGE initiative's objective is to prepare the South West Planning Region of Bulgaria for its work with the Structural Funds through analysis of the innovation potential of the region, elaboration of Regional Innovation Strategy and Plan for its implementation, including specific measures in support of innovation and technological upgrading of the business at regional level.

In 2007 representatives of the Center for the Study of Democracy, Applied Research and Communications Fund and regional governors from the South-West Region of Bulgaria took part in a **study visit** to Baden-Württemberg, Germany, and West Midlands, UK. The visit centered around exchange of experience and discussion of the regional innovation strategies' follow-up and implementation, including the mechanisms of financing regional innovation-based economic development, boosting research potential and promoting collaboration between enterprises and research institutes.

The Center for the Study of Democracy and Applied Research and Communications Fund, together with the Regional Administration of Sofia city and the Association of the South West

Municipalities, organized a Regional Conference on the role of the Regional Innovation Strategy (RIS) initiatives for building regional capacity to work with the financial instruments of the European Cohesion and Structural Funds in successful public-private partnerships. The conference focused on:

- the **analysis of the innovation demand and supply** and functioning of the regional innovation system of the South West planning region of Bulgaria;
- the **financial opportunities** for the regional stakeholders envisaged within the Structural Funds and the Operational Programs Competitiveness, Regional Development and Human Resource Development;
- the **capacity of the municipalities** in South West Bulgaria to work in public-private partnerships with the respective financial instruments, and
- an example of a bank's financial

policy designed for supporting project proposals for **public-private partnerships within the Structural Funds**.

#### IV. Distance Learning

CSD continued its work with the Global Development Learning Network (GDLN) through its Distance Learning Center. In 2007 the Center carried out a total of 21 videoconferences, mainly within the framework of three parallel series on: SME development and access to finance; regional competitiveness; and investment climate. This initiative brought together policy-makers, civil society and other national organizations from eight countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Romania and Serbia, along with World Bank staff.

Some of the topics presented to Bulgarian audience through the CSD Distance Learning Center in 2007 were:



*Participants in a Private Sector Development Initiative for Southeastern Europe videoconference at the Sofia Distance Learning Center.*

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enterprise access to finance; private sector economic development and competitiveness building strategies; regulatory reform and regulatory impact analysis; privatization, enterprise re-

structuring and SME development; creation of industrial clusters; labor competitiveness and regulation, etc.



## Sociological program /Vitosha Research

### 2007 Highlights

- In 2007 Vitosha Research conducted a number of social, economic, marketing, and media surveys. 37,000 face-to-face structured, semi-structured, and telephone interviews were conducted, as well as 15 focus groups. Research results were summarized in 20 analytical reports.
- The priority lines of research continued to be corruption, the 'hidden economy', and crime victimization. The findings of the surveys conducted were presented in the eight annual report Anti-Corruption Reforms in Bulgaria: Key Results and Risks.
- The social sphere also emerged as a priority area of research. A significant part of Vitosha Research surveys and activities was focused on minority issues and the elaboration of an ethnic integration index.
- In 2007 Vitosha Research conducted 12 surveys under the Flash Eurobarometer Project among the general public and the business community. Flash Eurobarometer constitutes a critical instrument in the work of European policy and decision makers.
- Vitosha Research participated in several international projects. The main topics of these studies include training needs of judges in Georgia, the impact of foreign aid on job creation in Bulgaria, the attitudes and opinions of MPs and top-level public officials about political and economic reforms in Bulgaria, Dutch tourists' experience with corrupt practices among Bulgarian public officials, and others.

## I. Economic Surveys

### 1. Exploring and forecasting employers' skilled labor needs

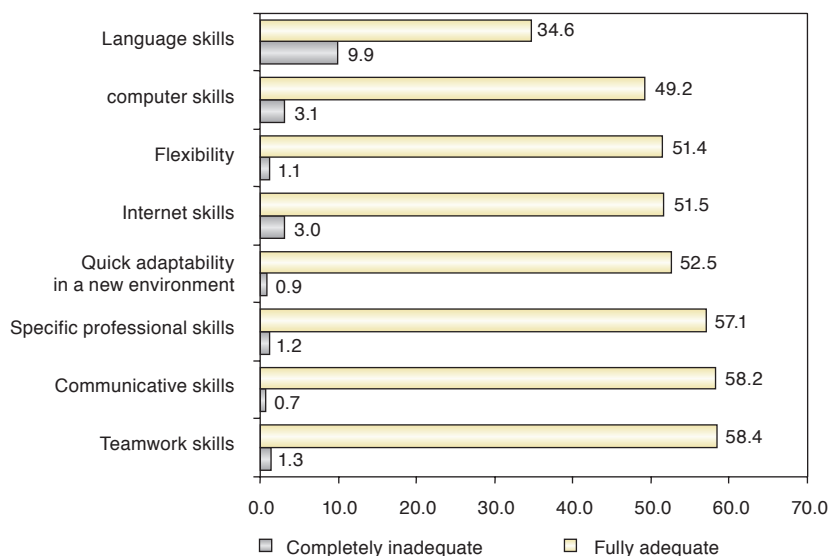
In 2007 Vitosha Research and Industry Watch conducted a national representative survey covering 2019 enterprises commissioned by the Ministry of Labor and Social Policy. The survey included companies in all sectors of the economy throughout the country. The main goal of the survey was to find out the prospective needs of employers in Bulgaria for workers with specific professional skills. The study was aimed to help MLSP in designing labor market policy priorities.

The survey focused on two major issues:

- Which are the most critical workforce needs of employers (segments in which labor demand is concentrated) at the national level?
- In which segment of labor supply is workforce quality improvement likely to have the strongest impact on the economy?

Short (one year) and mid-term (3 years) labor demand forecasts were developed. A needs analysis was elaborated with regards to particular employee abilities and skills for the mass segments of the labor market. It was concluded that, in addition to specialized knowledge, experience and technical skills, employers are especially interested in personal skills and as:

**Figure 3. Adequacy of Existing Staff Skills and Abilities for the Normal Operation of Companies**



Source: Vitosha Research, *Exploring and Forecasting Employers' Needs for Workers with Particular Occupational Skills*, May 2007

Base: N = 2019

- communicative skills;
- flexibility;
- teamwork;
- ability to work under stress;
- motivation;
- leadership skills and others.

Close to 92% of the interviewed employers shared the view that certain skills and abilities of employees, such as communicative skills and quick adaptability are of key importance to the normal operation and growth of their business.

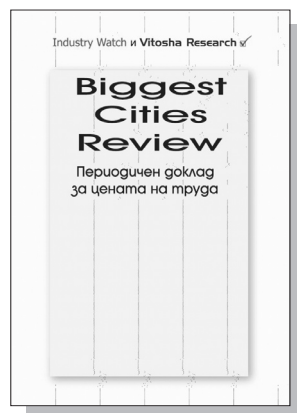
## 2. Biggest Cities Review

Vitosha Research and Industry Watch continued their joint research project launched in early 2006 - **Biggest Cities Review**. It involves preparing regular reports including quarterly topic-specific overviews. The main goal of these analyses is providing viable up-to-date information to serve as a basis for making investment decisions. The basic areas of research covered in the regular reports are:

- Differences in the cost of labor by residence areas;
- Average monthly wages and the labor supply;
- Differences in the cost of living by residence areas.

## 3. Compliance with tax and social security obligations

The National Revenue Agency commissioned Vitosha Research a survey to explore the motives of citizens and companies to comply with their tax and social security obligations, as well as their opinions about the country's tax and social security systems. The summarized findings of the survey will help improve the overall operation of the National Revenue Agency.



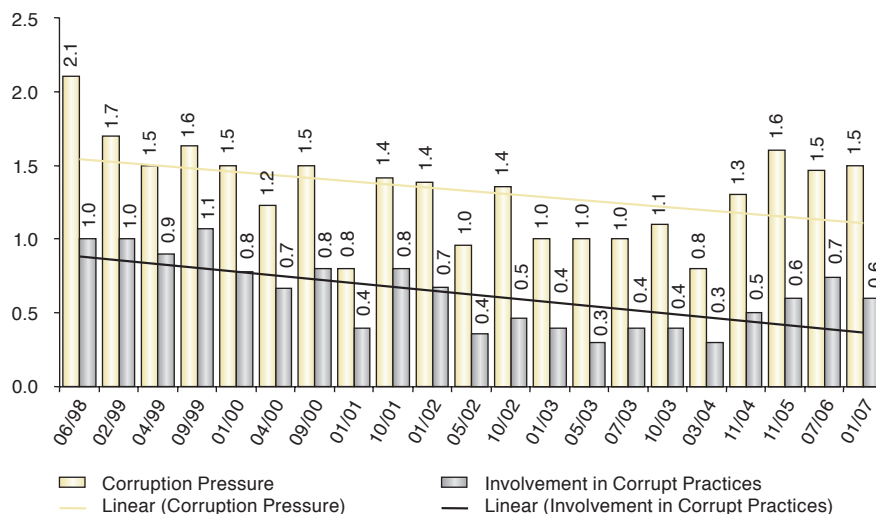
## II. Corruption, Grey Economy, and Crime Victimization

### 1. Corruption

Vitosha Research continued its long terms effort in monitoring corruption. A comprehensive and thorough accountability and evaluation system was developed jointly with the Center for the Study of Democracy to monitor the implementation of the Strategy and Program for prevention and counteraction of corruption and the transparency of the Bulgarian Government (this aspect is considered in greater detail in the **Consolidation of Anti-Corruption Reforms in Bulgaria** section).

With Bulgaria's membership in the European Union, national anticorruption initiatives have been growing in increasingly dependent on the concerted international efforts to curb corruption. Drawing on their experience of the past 10 years, in 2007 Vitosha Research and CSD worked towards the **elaboration of an integrated European methodology to define the standards for measuring corruption**. VR and CSD have gained solid experience in the evaluation of anticorruption initiatives and their impact on corruption. This could serve

**Figure 4. Indexes of Involvement in Corruption and Corruption Pressure – Population (min=0, max=10)**



Source: Vitosha Research / CMS

Note: The minimum value of both indexes is zero, indicating absence of corruption transactions; the maximum value is 10, meaning that all instances of citizen interaction with the administration are marked by a corruption element.

as a starting point for designing uniform corruption assessment methodologies which could develop integrated EU anticorruption and good governance policies. Practically, this would mean employing one and the same technique to measure the spread of corruption all EU countries. Common measurement would be the basis for developing benchmarks and EU standards in the area of anti-corruption.

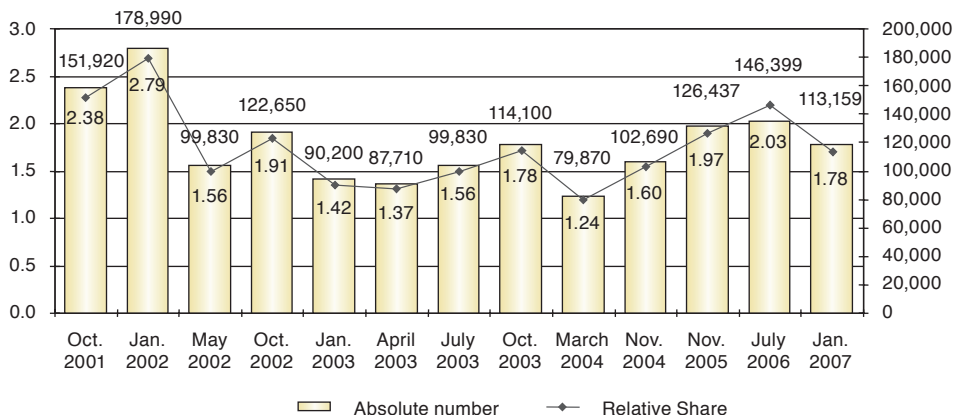
The results of the surveys conducted in 2007 were published in the eight annual overview of the corruption situation and anticorruption policy in Bulgaria – *Anticorruption Reforms in Bulgaria: Key Results and Risks*.

The principal tendency marking the period 1998-2007 has been the gradual

decline in both real and potential corruption. In 2004-2005, however, there appeared some alarming signs for an increase of the number of corruption transactions. Since 2006 however, the value of the Involvement in Corruption Transactions Index both among the general public and in the business sector has declined.

Cases of involvement in corruption among adult Bulgarian citizens was in the range of 180,000-200,000 a month, in the period July 2003-March 2004, it ranged between 80,000-90,000 a month. In 2005, the incidence of corruption pressure by officials and the number of actually concluded corruption transactions reverted to the higher average values (about 140,000 a month). In early 2007, the average monthly number of

**Figure 5. Average Monthly Number and Relative Share of Corruption Transaction**



Source: Vitosha Research / CMS

Note: The number of corruption transactions is calculated based on data from the Population Census of March 2001, according to which the total population aged over 18 amounts to 6,417,689, and therefore 1% of the sample represents 64,180 persons.

corruption transactions dropped to approximately 110,000-115,000.

## 2. Hidden Economy

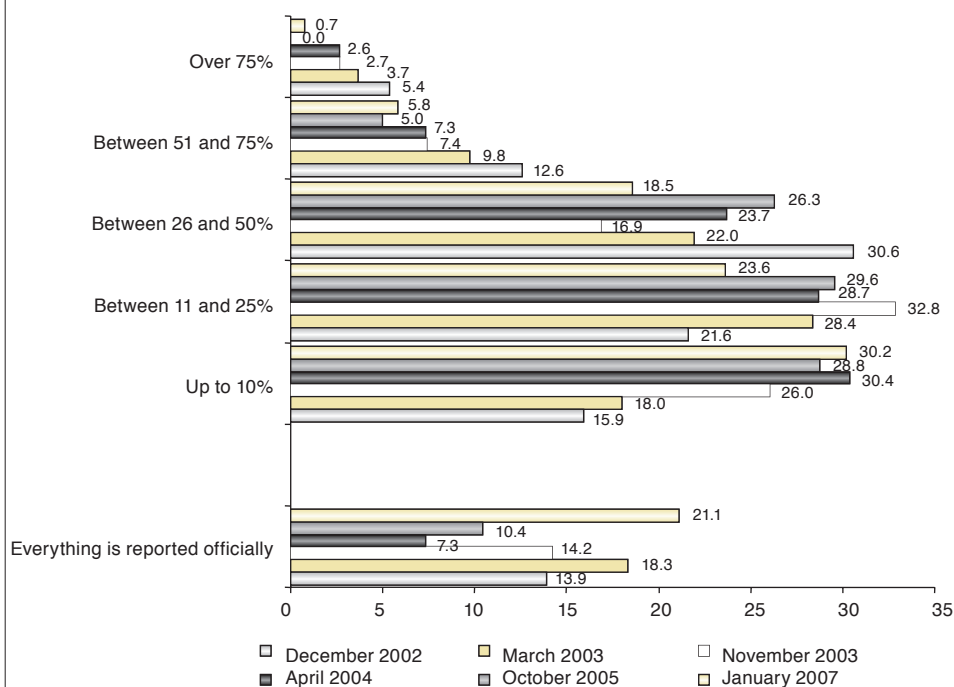
The hidden economy indexes are the basic output of the *Monitoring of the Size and Dynamics of the Hidden Economy in Bulgaria*, which Vitosha Research began conducting in 2002. In the period 2002-2007, the share of grey sector in different branches of the Bulgarian economy declined from 29% to 17.1%, i.e. in 2007, approximately one in five Leva of turnover in the economy passed through the grey sector.

The hidden economy indexes fall into two basic groups – indexes reflecting the involvement of the **population** in the hidden economy and indexes reflecting hidden economy manifestations in the **business sector**. The main indexes in these two groups are as follows:

*Unreported economic activity.* This index summarizes unreported incomes and turnover concerning the general population: engaging in unregistered work; non-payment of social and health insurance contributions; frequency of obtaining official receipts for particular services or goods purchased, and others. The index comprises two basic sub-indexes:

- **Employment/Labor relations.** The involvement in unregistered work is one of the main gauges of hidden economy. The indicators that make up this index provide information on the share of those working without a formal employment contract or under a contract with 'hidden clauses', as well as on the payment of social security and health insurance contributions.
- **Hidden turnover.** One of the most common manifestations of the hidden economy is the non-issuing of

**Figure 6. General Assessments of the Share of the Hidden Economy (%)**



Base: (Dec '02: N= 389; Mar '03: N = 328; Nov '03: N=338; Apr '04: N=342; Oct '05: N=240; Jan '07: N=275)

records of purchase – cash receipts or invoices – for services or goods purchased. Although it concerns the general population, indirectly this index also measures the spread of the practice of hiding turnover among businesses.

*Home production.* This index assesses the 'weight' of home production and consumption in the grey sector of the economy. Although those engaged in home production for personal use are not required to officially register this activity and the latter is generally considered supplementary, to a large part of the population it proves to

be the main occupation and source of livelihood. The volume of home production is an important indicator of the 'grayness' of the economy in general. It includes indicators measuring employment, incomes, and consumption of the households engaged in home production.

Perceived scope of the hidden economy. This index summarizes the subjective perceptions of the business community about the size of the hidden economy in the country – at the national level and by specific sectors of the economy.

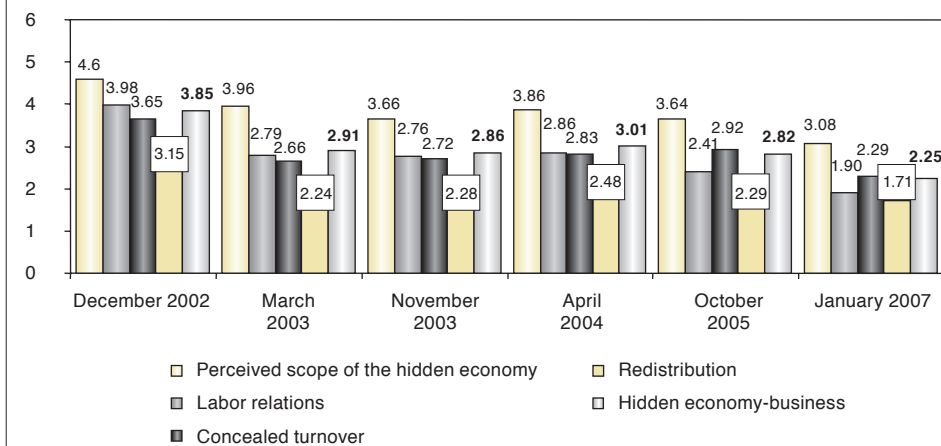
- Labor relations. This index summarizes the perceived spread of hiring workers without formal employment contracts or under contracts stating lower than the actual wage levels.
- Hidden turnover. This index reflects the spread of the various practices of hiding turnover, such as non-issuing of records of purchase, underreporting turnover, underreporting profits, frequency of barter deals, illegal import/export, etc.
- Redistribution. This index shows the spread of evasion/non-payment of taxes, import and excise duties by businesses. It provides information about the share of the companies engaged in such practices by sectors.

For the business sector, hidden turnover remains the most serious problem. Regarding labor relations, the tendency to hire people without formal employment contracts has been declining

steadily. The downward trend has been slower with respect to those hired under contracts with hidden clauses.

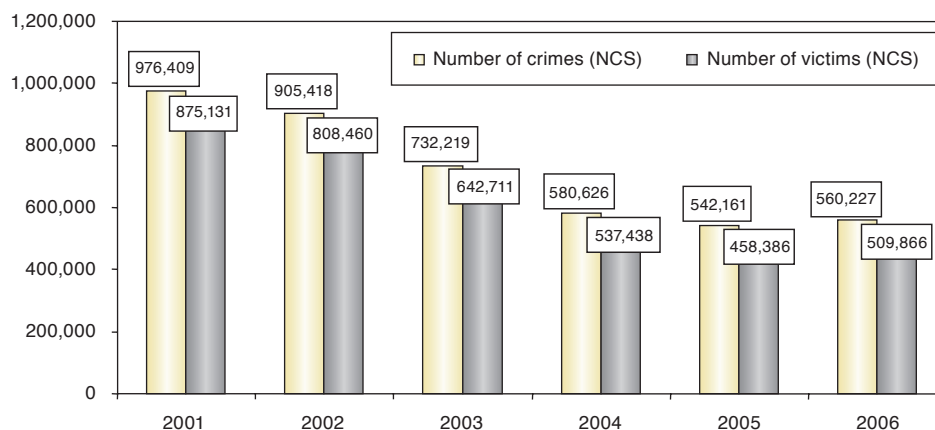
**The National Crime Survey (NCS)** was conducted by Vitosha Research for the fourth time. It employed UNICRI (ICVS) methodology. The survey is intended to assist the National Crime Prevention Commission in priority planning and the coordination of crime prevention policies. The first national survey using this methodology was conducted in Bulgaria in July 2002.\* In November 2004 and December 2005 Vitosha Research and the Center for the Study of Democracy conducted another two similar surveys. NCS aims to collect information about crimes against citizens in the past 5 years and in the year of the survey. Two major groups of crimes are covered: **property crimes** (thefts of and from motor vehicles, thefts of motorcycles and bicycles, burglaries and attempted burglaries) and **crimes against the person** (robberies, theft of

**Figure 7. Dynamics of the Business Index of Hidden Economy and its Components**



\* The survey was conducted by Vitosha Research and commissioned by Open Society Fund and UNICRI.

**Figure 8. Number of Crime Victims and Number of Crimes in the Past Six Years (by NCS data)**



Base: CVS 2002 N=1615; CVS 2004 N=1101; CVS 2005 N=1202; CVS 2007 N=2463

personal property, sexual crimes and assaults).

In developed countries conducting crime victim surveys dates back to the 1960s. Their main goal is to obtain reliable information about the **actual crime rate** by the use of sample methods. The principal reason for conducting victimization surveys is that not all crime incidents are reported by victims and registered by the police, which is why official statistics data do not accurately reflect the actual number of crimes. The **latency** (the relative share of unreported crimes) varies with different types of crimes and depends on relations between the public and the police. Good relations between the citizens and the police typically lead to higher trust in law-enforcement authorities and respectively, to lower the latency levels. Another important factor leading to deviations in official crime statistics is the presence of the so-called **police filters**, i.e. police practices aimed to discourage citizens from

reporting crimes to which they have been victims.

Victimization surveys are useful in two basic aspects. First, they constitute an instrument of civic control over police activity since they make it possible to verify crime-related information provided by the police. Second, they allow in-depth analysis of latency levels and police filters and serve as basis for specific recommendations for improving police performance regarding crime prevention and counteraction.

### III. Social Surveys

#### 1. Ethnic Integration Index

In March 2007 the third consecutive survey commissioned by Partners Bulgaria Foundation was conducted by Vitosha Research in the municipalities of Razgrad, Isparih, Aitos, Devin, Kurdjali, Momchilgrad, Asenovgrad, Turgovishte, Dupnitsa, and Samokov. An Ethnic Integ-



ration Index was calculated based on the surveys results. This index measures ethnic group proximity in seven basic spheres of public life, for which sub-indexes are computed:

- Local government;
- Labor market;
- Education;
- Healthcare;
- Social services;
- Standard of living;
- Relations with others.

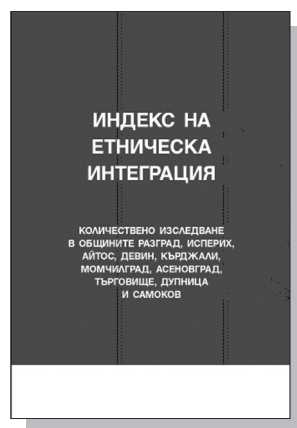
The values of the sub-indexes and indexes of the integration of the various ethnic and religious groups vary significantly for different municipalities.

Despite the specific characteristics of each municipality surveyed, the data allow drawing the following more general conclusions:

- In six of the municipalities (Razgrad, Isperih, Aitos, Devin, Kurdjali, and Momchilgrad) a decline is observed regarding differences in financial and material status between Christians and Muslims. Data from both surveys indicate relatively good coexistence and reasonably tolerant attitudes in all municipalities with the exception of Dupnitsa and Samokov.
- In the municipalities of Dupnitsa and Samokov inter-ethnic relations are rather negativistic and a considerably lower level of ethnic integration is observed between the Bulgarians and the Roma. In the municipalities inhabited by Bulgarians and Turks, with or without the presence of Roma, the Bulgarian population proves far more tolerant to the ethnic Turks while the Roma remain an isolated group.
- Discrimination on the labor market is observed mostly with respect to Roma. The unemployment rate is

highest among them and their financial status is lowest. The Roma are also the main beneficiaries of social services.

- In some of the municipalities there are still those who argue in favor of segregated education of minority children. In municipalities with compact Roma population the highest school drop-out rates are observed. Turgovishte emerged as the municipality with the largest proportion of school-age children who do not attend school – such children were found in nearly one-fifth (19%) of the Roma families.



## 2. Developing an effective response to the trafficking in children by studying trafficking mechanisms and the actual needs of the most at-risk groups

The project was implemented jointly with Save the Children Foundation – Albania and was completed in early 2007. The goal of the survey commissioned was to explore in detail the mechanisms of the trafficking in children; to verify the hypotheses regarding the at-risk groups and risk factors; to identify the needs of the real and potential victims, and to

compile a data base for the development of adequate and effective measures of counteraction.

### 3. Social assessment of a gold-mining concession

The chief objective of the study was to analyze the impact of the gold-mining project in the region of Krumovgrad on the life of the population in the municipality. It explored the potential impact of the project on the national and local labor markets (in quantitative and qualitative terms); the socio-cultural environment (including local traditions and sources of livelihood, way of life, living standards and quality of life); on those immediately hired by the concessionary in terms of working conditions, job descriptions and remuneration, social infrastructure and benefits, social rights. The social assessment also examined the social measures envisioned to neutralize possible risk factors and negative implications of project implementation.

### 4. Survey among the users of Internet and telephone services

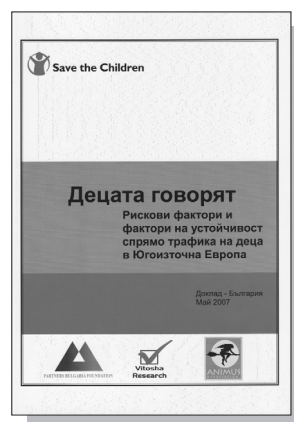
A considerable part of Vitosha Research activity involves surveys among the users of Internet and telephone services in this country (fixed line telephones, public payphones and cell phones, as well as ADSL Internet services). Their goal was to analyze the current situation in the market for telecommunications services both among the general population and the business sector. The results were used to elaborate forecasts about the development of this market in Bulgaria.

### 5. Flash Eurobarometer

Vitosha Research continued its work on Flash Eurobarometer, conducting more than 10 surveys among various target

groups on different topical issues such as: the introduction of the Euro in the new member countries; cross-cultural dialogue; biodiversity and Natura 2000, etc. The employed method of data collection was standardized telephone interview.

Flash Eurobarometer is an essential instrument for European politicians and decision makers. The survey covers 34 states and serves to collect and analyze up-to-date information from the citizens of the European Union and other countries on the most topical social, economic, and political issues.



### 6. Electoral attitudes in Razlog Municipality – local elections 2007

The survey aimed to explore public attitudes in Razlog Municipality prior to the local government elections in 2007. The specific objectives of the survey were to measure and outline:

- Degree of satisfaction of the public with the current governance of the municipality;
- Degree of approval of present local authorities;

- Main problems in the municipality that need to be addressed by authorities;
- Attitudes to voting in the upcoming local elections;
- The personalities for whom the local residents would cast their votes.

### 7. The experience of Dutch tourists with corrupt practices among Bulgarian public officials

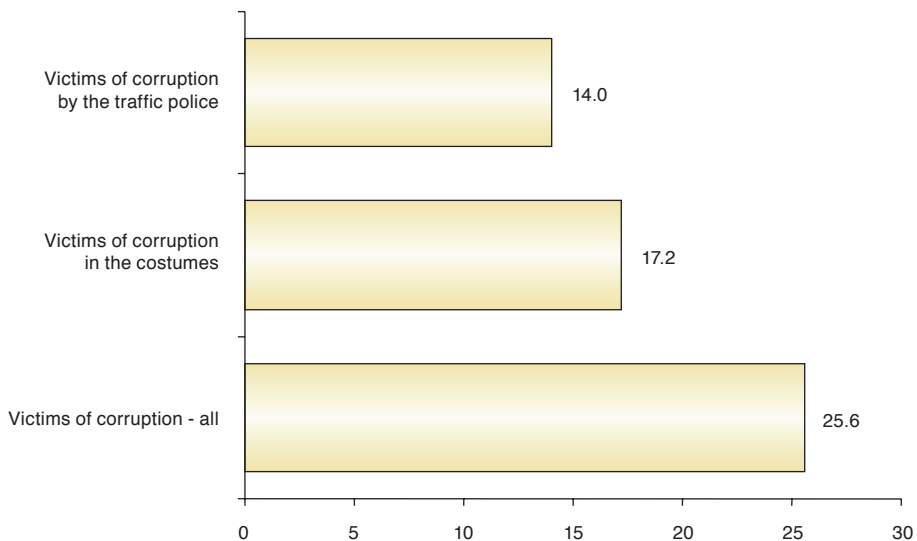
The goal of the project was to estimate the number of Dutch tourists passing through the country who have experienced corruption practices among Bulgarian public officials (customs and police officers). The poll conducted in the end of August 2007 among Dutch tourists leaving Bulgaria from the Kalotina border checkpoint indicated that the country

has made significant progress in reducing corruption at the border checkpoints as well as on the roads across the country. The majority of the respondents expressed the opinion that the situation in Bulgaria had improved considerably compared to their earlier visits (79.8% of the interviewed tourists). Nevertheless, a total of 25.6% of the Dutch tourists passing through the country reported having been victim to corrupt practices.

### 8. Survey of training needs of judges in Georgia

In late 2006, Vitosha Research conducted a survey among judges in Georgia to identify their training needs. The study was commissioned by the International Development Law Organization (IDLO), Rome. It covered a total of 153 judges working in different courts in Georgia. The survey included a test with 45

**Figure 9. Dutch Tourists Who have been Confronted with Corrupt Practices among Police and Customs Officers**



Base: All respondents N=500

questions evaluating judges' knowledge in 13 areas of law. Test results suggested the following more important conclusions:

- A relatively small number of the judges surveyed gave a sufficient number of correct answers. The highest number of correct answers was 33 and their average number was 20 (out of 45 questions).
- Relatively good results (60% correct answers) were achieved in several areas such as corporate law, contracts in the construction sector, as well as familiarity with the specific legislation of Georgia.
- In important areas of commercial law such as financial analysis, legislation related to competition, intellectual property, and dispute resolution, only about 10% of the interviewed judges gave correct answers to more than 50% of the questions.
- Overall, the legal qualification of judges in Georgia proved inadequate indicating that in 30-50% of the cases there is a real risk of a wrong legal decision.

In addition to legal qualification, many of the judges surveyed were in need of further training in computer skills such as working with databases, the Internet and e-mail. Although most of the judges acknowledged the need for this type of training, barely one-third demonstrated readiness to attend such courses.

#### **9. Survey among Bulgarian legislators and high-ranking public officials**

The survey was commissioned by Princeton Survey Research Associates. Its principal goal was to collect information about the attitudes and opinions of MPs and high-ranking public officials regarding certain critical problems

related to the political and economic reforms in Bulgaria; about the new challenges stemming from Bulgaria's EU accession; on certain topical aspects of international relations.

The survey collected the opinions of 62 members of the National Assembly and 32 senior public officials.

#### **10. The impact of foreign aid on job creation in Bulgaria**

The survey commissioned by Arizona State University included Bulgarian enterprises that have received foreign financial or technical aid and a control group of enterprises that have not received. The main goal was to assess the impact of such aid on job creation in this country.

##### *Analyses*

The more important analytical reports prepared in 2007 include:

1. Ethnic Integration Index, March 2007  
<http://www.vitosha-research.com/artShow.php?id=8757>
2. Biggest Cities Review, March 2007  
<http://www.vitosha-research.com/artShow.php?id=8208>
3. The Children Are Talking, May 2007
4. National Crime Victims Survey 2007 – Results and Trends, June 2007
5. Exploring and Forecasting Employers' Needs for Workers with Particular Skills and Qualifications, June 2007

## European Program

In 2007, CSD's European program worked most extensively in the area of the new security threats in the context of Bulgaria's membership in the European Union. The program invested significant efforts in institutionalizing public-private partnership in crime prevention and published a series of expert analyses relating to key aspects of justice and home affairs policy.

### 2007 Highlights

- **Crime prevention** is an area where CSD has been promoting common approaches by government institutions and civil society. CSD was the main resource institution for the operation of the National Crime Prevention Commission by development of analyses of the various aspects of criminality.
- **Analysis of crime trends** was pioneered by CSD in the beginning of the decade and was institutionalized through the **National Crime Surveys (NCS)** carried out by CSD, in cooperation with the Ministry of Interior, on an annual basis. The NCS is now the authoritative source of data and analysis of the dynamics of conventional crime in Bulgaria.
- 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.
- In the field of **policies against organized crime**, CSD launched a major analysis of the main black markets. The Center's analysis summarized the analyses carried out by the Center for the Study of Democracy throughout the last decade which have focused on specific aspects of organized crime in Bulgaria (contraband, the drug market, tax fraud, human trafficking, arms proliferation, etc.), the systemic spread of corruption, and the linkages between the two.

## I. Promoting dialogue and strengthening capacity

In late 2005, the Center contributed to the establishment of a National Crime Prevention Commission. The Commission focuses on the coordination of existing and the development of new crime prevention initiatives, as well as on awareness-raising for crime prevention with the aim to reduce the impact of crime on society and citizen safety. CSD provides essential input through preparing of analyses of the various aspects of criminality, which in 2007 were particularly devoted to the study of current crime trends. In the course of the year the Commission held two public meetings where the Center provided the analytical background on which particular policies should be built through the specific reports and presentations dedicated to the meetings' focus.

On **25 June 2007** the Center for the Study of Democracy in cooperation with the National Crime Prevention Commission held a public meeting of the Commission dedicated to the spread

of narcotic drugs in Bulgaria. The Minister of Interior Mr. Rumen Petkov, who chairs the Commission, pointed out that public-private partnership is a key element in implementing programs for the prevention of drug proliferation.

Chief Commissioner Valentin Pertov, Director of the National Police Service, presented key police data on the effects of anti-drug criminal policy, with a focus on the recent dismantling of organized drug distribution groups operating in Bulgaria.

Mr. Tihomir Bezlov, Senior Analyst at the Center, presented the National Crime Survey (NCS; see more detail in the Vitosha Research section of this report) findings about the trends on the Bulgarian drug market over the last five years (2002—2007). He compared these trends with data from the first such nationally representative survey on drugs in Bulgaria (December 2002—January 2003), as well as several newer victimization surveys (from 2005, 2006 and 2007). Mr. Bezlov also dwelt on the underlying factors behind the shrinking heroin market, e.g. the decreasing



*From left: Chief Commissioner Valentin Petrov, Interior Minister Rumen Petkov, Ognian Shentov, CSD Chairman, Tihomir Bezlov, Senior Analyst, CSD*

number of street dealers, the poorer quality of recent supplies, the enrollment of a growing number of addicts in methadone programs after 2005, and the greater popularity of Substitol, MST and other treatments.

The new trends announced were a growth in soft drugs use between 2004 and 2006, in amphetamine use particularly in the largest cities such as Sofia and Burgas, and in cocaine use.

The second meeting of the National Crime Prevention Commission was held on **28 September 2007**.

The meeting's key speaker was again Tihomir Bezlov who presented the Bulgarian and international crime prevention practices in a comparative perspective. He focused on the approaches to prevent crime among school-age youths and on partnership between local police forces and municipal authorities.

Crime prevention is also related to the European Program's efforts to advocate the **adoption of European standards in police stop and search activities**. The Center for the Study of Democracy in cooperation with the Open Society Justice Initiative launched an project which aims to improve police-minority relations through increasing the effectiveness and accountability of police powers to conduct identity checks and searches in Bulgaria. In 2007, the European Program, in cooperation with the Security Police Department of the Crime Counteraction, Public Order Maintenance and Prevention Directorate, established a monitoring system that will enhance police management and accountability of stops. In addition, a police stop and search guidance is elaborated. The project will generate replicable models of good practice that can be disseminated regionally.

Project activities are implemented in coordination with partners from the Metropolitan Police Service and the Leicestershire Constabulary in the UK, as well as from Hungary and Spain. The final results are being analyzed and will be presented in comparative perspective at a European regional seminar with existing regional policing networks.

**Energy security** is another area of recurring CSD interest. The Center's round table discussion on "Energy Security: Diversification and Source Dependence" took place on December 7, 2007. Participants debated the possibilities for the Euro-Atlantic community to supply economically feasible energy sources, specifically of oil and gas, and thus achieve the highest possible market-based independence from particular sources. These issues are especially relevant in Southeast Europe, including Bulgaria, as the area is both a consumer and a potential transit route for oil and gas ducts.

In his keynote speech, Mr. Matthew Bryza, Deputy Assistant Secretary of State for European and Eurasian Affairs, defined energy security through several different perspectives: of consumers, of energy producers, and as it relates to environmental issues. He stated that US energy policy takes into account the interests of both energy producers and energy consumers. He focused on the particular care with which priorities for large-scale energy projects should be selected, as oil and gas pipelines take eight to ten years to construct and are very expensive. Failure in picking the really important and sustainable projects could lead to serious financial losses.

## II. Analysis and policy recommendations

In December 2007 The Center published one of the farthest-reaching studies of organized crime in Bulgaria. Organized Crime in Bulgaria: Markets and Trends presents the latest trends and manifestations (or “market niches”) of syndicate crime and its particularly damaging effects, and offers a historical review of the facts and available expertise in the area to draw conclusions about the origin, characteristics and developmental features of organized criminality in Bulgaria.

The report analyzes the origin and evolution of the organized crime during the transition and offers an overview of the basic criminal markets—contraband, human trafficking and prostitution, the drug market, car theft, and the business with antiquities. The report presents an authentic picture of organized crime in Bulgaria by identifying its constituent features and major trends.

For this purpose information from all available sources has been used and analyzed through several, complementary methods. Collecting empirical data about clandestine and hidden markets is a hard task, which can sometimes put the researchers at risk. The publication also enhances public-private partnership in expert knowledge exchange as a main research approach favored by the Center for the Study of Democracy.

The report was launched on December 12, 2007 at a round table “Organized Crime in Bulgaria: Markets and Trends”.

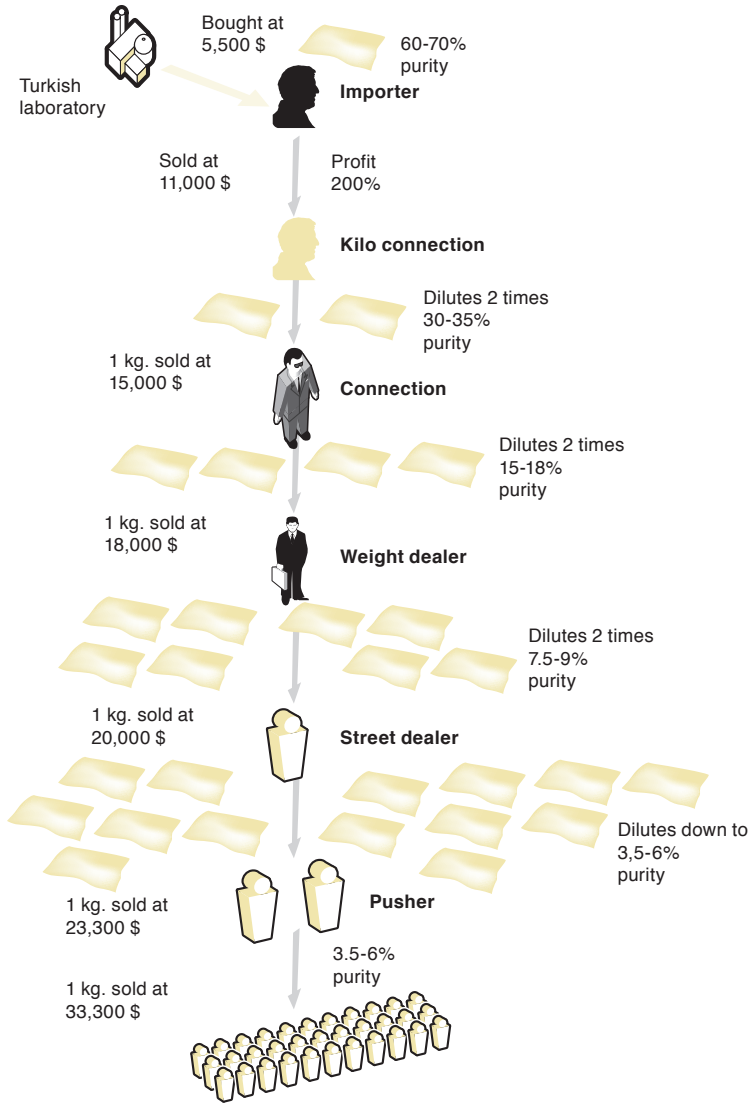
The event was opened by CSD Chairman Dr. Ognian Shentov. He highlighted the need for public-private partnerships in tackling organized crime. Dr. Shentov outlined the process and methodology of the development of the report and the significance of the analysis for the elaboration of effective anti-crime policies.



*From left: Matthew Bryza, US Deputy Assistant Secretary of State for European and Eurasian Affairs, Ambassador Boyko Noev, CSD European Program Director, US Ambassador John Beyrle*



**Figure 10. The Way of Heroin**



The German Ambassador to Bulgaria Michael Geier pointed out that vote buying during the recent local elections was a sign of the growing power of shadowy local business groups. "The

report presented by the Center for the Study of Democracy - with financial support by the European Union - proves that Bulgaria has not made its homework as far as the fight against organized



*CSD Chairman Dr. Shentov at the opening of the round table*

crime and high level corruption is concerned", he said. This has been clearly stated by the German President in August, when he stated that the German-Bulgarian relations are close, full of trust and devoid of problems, adding, however, that there is much to be done in Bulgaria, much to be done in Germany.

Mr. Tihomir Bezlov, Senior Analyst at the Center for the Study of Democracy and one of the authors of the report dwelt on the various aspects and trends in Bulgarian organized crime. He highlighted the differences and similarities between the Bulgarian and Russian models of organized crime. In describing the modes of adaptations of organized crime to a changing institutional and regulatory environment Mr. Bezlov focused on the use of gray

market techniques and the transition from hierarchies to networks. Further, Mr. Bezlov outlined the conclusions in the analysis of the drug market, car theft and prostitution and human trafficking.

Ambassador Tove Skarstein from the Royal Norwegian Embassy underlined that prostitution and human trafficking are an important issue in the Norwegian-Bulgarian relations. Norway is the largest sex market in Northern Europe and a preferred destination for trafficking of women for sexual purposes. Norway regards the issue not only as a crime, but as a severe violation of human rights. As few victims seek help, however, it is difficult to distinguish the extent to which trafficking is influenced by social factors from the level of involvement of organized crime. It is certain, though, that exporting women for prostitution



*From left: US Ambassador John Beyrle, Ambassador Tove Skarstein, Minister of Interior Rumen Petkov German Ambassador Michael Geier, Ambassador of Finland Kauko Jamsen (file 20071212-20dO 002)*

relies on highly professional networks of organized crime. The UN Palermo Protocol and the Council of Europe Convention on Action against Trafficking, place a clear responsibility on the countries of origin to alleviate the root causes for trafficking, but countries of destination also have a clear responsibility to curb the demand.

The Ambassador of Finland Kauko Jamsen, pointed to the similar position of Finland and Bulgaria at EU's outer borders and underlined the need to strengthen Union-level decision making in criminal justice. He presented the Finnish anti-organized crime approach, focusing on its key good practices. One aspect is target selection, implemented jointly by police, customs administration and the border guards and involving regular exchanges with the prosecution offices which effectively undermines the operation of criminal groups. Another aspect is that inter-institutional cooperation networks are backed by a well-developed computerized monitoring system that greatly helps identify

emerging crime groups. Finally, the use of special investigation means for organized crime prosecution is clearly regulated in Finnish law.

In his address, the US Ambassador John Beyrle focused on the importance of efforts to shed light on the shady businesses of organized crime. Organized crime in Bulgaria is not just a problem for Bulgarians - it's also a problem for America and the EU and that's why "you see so many Embassies represented here." The US its own battle against organized crime in the United States in the 1950s and 1960s involving not just police and courts, but members of Congress, journalists, trade union leaders, and many courageous individuals who stood up against it. Today the spotlight is on the problem in Bulgaria: the apparent impunity of organized crime figures; the connections between organized crime and politics; and the inability of existing laws to be enforced; and special benefits for the gray economy.

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Bulgarian Minister of Interior Rumen Petkov commended the consistent and methodical efforts of the Center in analyzing a sensitive area such as criminal markets. He said the report confirmed the need for public-private partnership in such endeavors, not least in order to point the weaknesses of government in tackling organized criminality.

The unprecedented media coverage of the event – all major Bulgarian media as well as reputable international services such as Reuters covered the presentation and the report – indicated that CSD is still the authoritative institution as regards the analysis of organized crime in Bulgaria.

# Consolidating Anti-Corruption Reforms in Bulgaria

## I. Policy reform

The policy component in CSD's anti-corruption activities influenced strategic reform of the design and delivery of anti-corruption policies in Bulgaria. The impact of the CSD in this area was achieved through an annual cycle of comprehensive assessment of the institutional and regulatory environment relevant to corruption (resulting in the Corruption Assessment Report - CAR), which was carried out by civil society experts through a constructive engagement of government institutions.

### *Priorities of the government anti-corruption strategy, advocated by CSD*

Notably, **political corruption** is one of the key areas of concern in the new strategy. Some of the policies which the government is undertaking to prioritize relate to the **income and assets of high level governmental officials**. The strategy also seeks to introduce **stricter regulation of lobbying** and mechanisms to guarantee full transparency of the funding of political parties and their election campaigns, as well as introduce effective enforcement in this area.

As regards the civil service, the government was supposed to introduce **mobility and rotation of the officials** in the areas most sensitive to corruption and improve the rules for **avoiding conflicts of interest when public administration officials move to the private sector**.

In terms of specific public sectors, **health care and education** were highlighted as in need of particular attention. These areas had appeared as being of particu-

lar concern to the Bulgarian public in CSD's corruption monitoring indexes in the last few years and had also been pointed out by the European Commission. The strategy also intends to strengthen the specialized and public control over the granting of public procurement and concession contracts.

As regards particularly vulnerable areas of the economy, the strategy prioritizes anti-corruption measures related to **VAT fraud and the grey economy**. The establishment of **centralized electronic system for registration of legal entities** as an administrative, rather than a judicial process, is expected to ease tangibly the corruption pressure on business.

The new strategy and plan of action also make progress in terms of its oversight mechanisms. **Civil society** is made part of the process of implementation monitoring and a **system of unified statistics** on the enforcement of criminal anti-corruption legislation – something CSD has been advocating for a while - is expected to be put in place.

During the drafting process, CSD insisted that the government body overseeing the implementation of the strategy should have a much stronger mandate and institutional status than the previous Coordination Commission. As a result, the remit of the Commission has shifted away from information gathering and coordination towards **policy making and control** functions. It was tasked – in addition to overseeing the implementation – with translating the strategy into specific policies and ensuring the interface with local and



*From left to right: Ms. Gudrun Steinacker, Charge d’Affaires, Embassy of the Federal Republic of Germany (EU Chair), Mr. Roumen Petkov, Minister of Interior, CSD Chairman Dr. Ognian Shentov, Mr. Alexander Karagiannis, Deputy Chief of Mission, Embassy of the United States, Mr. Nikolai Vassilev, Minister of Public Administration and Administrative Reform*

international partners.

***Policy assistance to the government  
Anti-Corruption Commission***

In the second half of 2006, CSD, at the request of the Commission for the Prevention and Counteraction of Corruption (CPCC) of the Bulgarian government, developed a mechanism for evaluating the implementation of government 2006-2008 anti-corruption strategy (exact title “System of Indicators for the Assessment of the Implementation of 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”).

On January 30, 2007 the system of indicators was presented to the public and international partners at a round table hosted by CSD. The event was addressed by the Chair of CPCC Minister Roumen Petkov and Mr. Alexander Karagiannis, Deputy Chief

of Mission, Embassy of the United States. The round table was part of a longer term CSD effort to highlight the significance of corruption measurement as an indispensable tool for any anti-corruption policy – both at the national and international level.

Having become the core of the mechanism for evaluating the implementation of anti-corruption strategy of the Bulgarian government, in 2007 CSD’s Corruption Monitoring System (CMS) was promoted as a relevant instrument for the European Union. In a round table in Brussels on February 14, co-organized by CSD and Bulgaria’s Permanent Representation to the EU, Minister Petkov announced that he has proposed to the European Commission the development of a common EU methodology for corruption measurement.

Following the round table, the government anti-corruption commission drafted a non-paper, based on CSD’s policy brief (more on it below) about the



*From left to right: CSD Chairman Dr. Ognian Shentov; Ambassador Stanislav Daskalov, Permanent Representative of Bulgaria to the EU and Bulgaria's Minister of Interior Roumen Petkov at the Brussels round table*

need for European benchmarking, and submitted it to the Vice President of the European Commission and Commissioner responsible for Freedom, Security and Justice Franco Frattini during his visit in Bulgaria on February 17-19, 2007.

Thus, there are clear prospects that CSD's watchdog work will bear fruit not just in Bulgaria but potentially within the whole EU. Most importantly, CSD's legacy in this area will be ensured by adding momentum and sustainability. In this way, not only could the EU take a more active role in fostering and encouraging Bulgaria's reforms but that role would be exercised in cooperation with Bulgarian civil society.

### *Anti-corruption brief*

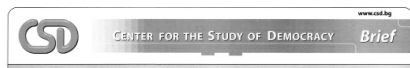
In order to enhance the impact of these efforts, CSD wrote and circulated to foreign representations and international organizations a policy brief on the opportunities to build on the Bulgarian corruption measurement experience for the benefit of the future EU efforts in this area. The brief argues that diagnosing

the state of corruption and obtaining reliable information about its dynamics are crucial to the implementation of successful prevention and control policies, including within the EU itself.

## **II. Monitoring of Anti-Corruption Reforms**

In 2007, significant progress was made towards one of the key CSD anti-corruption objectives – adoption by the government of a system of evaluation of anti-corruption legislation. As a result of CSD efforts during the drafting of the plan of action for the strategy, the government undertook to develop, in consultation with other stakeholders, a **set of indicators for evaluation of the implementation of strategy and the plan**. This was a major step forward in the capacity of government to assess the effectiveness of its anti-corruption policies.

To assist the government Anti-Corruption Commission in carrying out their mandate CSD subsequently focused



February 2007, No. 11

#### THE FUTURE OF CORRUPTION BENCHMARKING IN THE EU

Reducing corruption has been among the priorities of most international institutions over a number of years now. In particular, corruption was a major preoccupation during the 2004 and 2007 enlargements of the European Union and continues to dominate the agenda of the initial period of Bulgaria and Romania's membership.

Not being in the core of EU's acquis, anti-corruption was a relatively new matter to tackle and, in contrast to other areas of EU competence, it had little specific guidelines to offer applicant countries. Still, the significance of transparent and accountable government for the functioning of the EU internal market and the delivery of its core policies required that anti-corruption be made one of the key requirements for membership.

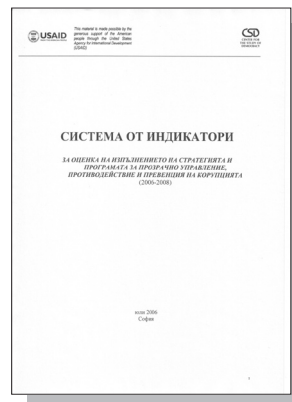
In this process, the European Commission advanced its capacity to **evaluate anti-corruption progress**. Following an initial focus on adherence to international standards and acceding to major conventions, attention later shifted to meeting specific good governance targets. Member states have also contributed to understanding corruption and recommending action through the mechanism of peer reviews.

Nevertheless, **identifying anti-corruption progress remains largely arbitrary**. Corruption – and this is true not just within the EU but worldwide – remains a fluid concept, signifying different things to different people. More importantly, it is an evolving concept.

In its initial Progress Reports, the European Commission was skeptical about the measurability of corruption<sup>14</sup>. Afterwards, in its 2003 Communication on an EU anti-corruption policy (its latest so far)<sup>15</sup>, the Commission believed an EU monitoring mechanism of corruption would be redundant, referring instead to the existing ones such as OECD, GRECO, etc. These, however, were designed to evaluate compliance with the provisions of

<sup>14</sup>While it is hard to know its extent, the persistent rumours about corrupt practices at various levels of the administration and the public sector in themselves contribute to tainting the political, economic and social environment." 2006 Regular Report from the Commission on Bulgaria's Progress Towards accession, 8 November 2006, p. 17

<sup>15</sup>Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on a Comprehensive EU Policy Against Corruption, COM(2003) 317 final, Brussels, 28.5.2003



#### Title page of Part 1 of the assessment methodology

its support on the development of a **comprehensive methodology** for assessing both spread of corruption and impact of various anti-corruption policies to be employed by the Commission.

The methodology consisted of three sets of indicators of progress, both qualitative and quantitative. CSD developed the first part of the methodology which outlines the overall set of measurement instruments. These included:

**A. Indicators for the implementation of the plan of action** for the strategy, including observance of deadlines, fulfillment of regulatory tasks, quality of legislation, quantitative measure of implementation (numbers of trainings, etc).

**B. Indicators for the achievement of the strategy goals.** These include measurement of corruption victimization ("rent seeking" from offi-

cial), acceptability of corruption by public, actual spread of corrupt practices, intolerance to corruption, public evaluation of government policies, level of awareness, etc.

**C. Indicators, measuring the impact of the implementation of the strategy,** including transaction costs for the various administrative services, level of regulation (including internal) of these services, professionalism of civil servants, quality of service, etc.

The significance of the methodology is in its comprehensive approach to evaluating anti-corruption progress. Through its adoption by the government Commission it will have a long term impact on the effectiveness of anti-corruption policies in Bulgaria.

Following that, CSD conducted a quantitative anti-corruption survey of the population. The survey achieved three main results:



The screenshot shows the SEGA website's internet edition. The main headline is **"Анонимен клиент" ще оценява чиновниците** (An anonymous client will evaluate public officials). The article text states that an anonymous client will be sent to the central and local administration to evaluate the work of public officials. It mentions a plan for monitoring non-governmental organizations, launched by the Center for the Study of Democracy, and approved by the government's anti-corruption council. The article also notes that the Minister of the Interior, Rumel Petkov, promised the state to finance the study, which will evaluate the effectiveness of anti-corruption policies for 2006-2008. The article is attributed to Nadelina Aneva.

*Sega daily covering the assessment methodology*

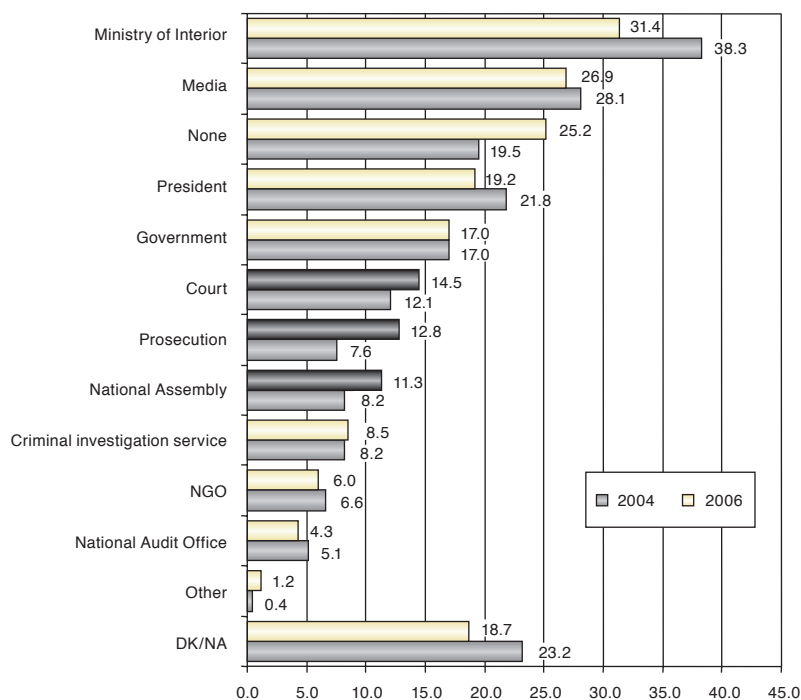
- introduced the secretariat of the CPCC to quantitative indicators of corruption dynamics which it would use in the future;
- informed the decision on the structure of the 2006 Corruption Assessment Report (published in 2007);
- provided updated information about the state of administrative corruption in Bulgaria.

**The Corruption Assessment Report (CAR) is the annual policy assessment instrument of CSD and still the only regular anti-corruption policy document published in Bulgaria.** Thanks mostly to its rigorous methodology and the inclusive process of its development, the CAR has by now established itself as an authoritative source of evaluation of corruption dynamics and the effectiveness of anti-corruption measures.

At the end of 2006, CSD's expert team on corruption monitoring identified the issues to be explored by the business sector corruption diagnostics (interaction of businesses with state agencies and institutions, corruption pressure on businesses by public officials (including by type of public service), main forms of corruption, frequency of bribing and average size of bribes, corruption expectations among business leaders and their assessment of government policies). In January 2007 the fieldwork was completed; it was timed to allow the analysis of the data to be available for the eighth annual Corruption Assessment Report.

Data from both surveys, described above, formed the backbone of the analysis of the dynamics of corruption in the Corruption Assessment Report. The data was also used as basis of presentations of the CSD's anti-corruption work and its results on two

**Figure 11. Share of Citizens believing the Quoted Institution is Effective in the Fight against Corruption**



*Corruption Assessment Report*

occasions: in Brussels (described above) and in Berlin on March 22, 2007 again jointly with the CPCC and the Parliamentary Anti-Corruption Committee. Media coverage\* highlighted CSD's effort to promote the CMS as a tool to be employed by the European Union.

The eighth consecutive Corruption Assessment Report 2006 - *Anti-Corruption Reforms in Bulgaria: Key Results and Risks* - was developed by a CSD task force with contributions by external experts. The development process included three stages:

- information gathering, including the surveys
- analysis and drafting
- consultations with stakeholders.

The emphasis for the 2006 CAR was determined during a series of meetings of the task force with representatives of various stakeholders. The focus of the Report was decided to be on **public procurement and the expected impact of the use of EU funds**.

\* For a list of the media coverage the Brussels event see: <http://www.csd.bg/bg/artShow.php?id=8452> and for Berlin see: <http://www.csd.bg/bg/artShow.php?id=8499>



*From left to right: Dr. Ognian Shentov, Chairman of the Board of CSD, and Mr. John Beyrle, US Ambassador to Bulgaria*

The eighth CAR analyzes the main results and risks of the anticorruption process from the period immediately preceding Bulgaria's accession to the EU through to the first months of EU membership. The report builds on regular monitoring of the spread of corruption, its trends, evaluations of the anti-corruption efforts and initiatives implemented by government institutions and by civil society, as well as a number of suggestions and recommendations on anti-corruption measures, including considerations related to the administration of EU's structural funds.

In addition to the main corruption indexes which have consistently displayed lower values throughout 2006 and early 2007, the report draws on authoritative international surveys to assess corruption levels in Bulgaria in comparison to EU member states. Furthermore, Bulgaria's EU member status demands that national anti-corruption initiatives are implemented in close coordination with EU and

international efforts in this area. Therefore, corruption would be most appropriately measured and assessed by a common EU benchmarking methodology as the most reliable yardstick for international comparisons.

### ***Policy Forum 2007***

The eighth CAR was presented to the Ninth Annual Anticorruption Policy Forum on April 23, 2007. Opening the forum Dr. Ognian Shentov, Chairman of the Board of CSD, emphasized that countering corruption is a main priority in Bulgaria and it is an important part of the country's international commitments.

The U.S. Ambassador to Bulgaria Mr. John R. Beyrle congratulated the civil society's efforts and particularly the Center for the Study of Democracy for all the activities against corruption. He laid special emphasis on the fact that corruption raises the public services prices, and it also drains money out of different social funds, such as healthcare



*From left to right: Mr. Florian Fichtl, Country Manager for Bulgaria, World Bank, Mr. Michael Fritz, Mission Director, USAID Bulgaria, and Mr. Ginyo Ganev, Ombudsman of the Republic of Bulgaria*

and education. The main reason of the US interest in the anti-corruption reforms is that corruption diminishes the trust of the international partners of Bulgaria. Ambassador Beyrle cited as an example the American justice system, highlighting the fact that the US political corruption is being penalized – now there are two congressmen sentenced and serving time in prison for corruption. According to Ambassador Beyrle there are three main conditions in order to reach a turning point in the counteraction of corruption. The first two – successful fight against corruption and encouragement of these efforts already exist. The only one left to fulfill is to have a political will to continue and intensify these efforts.

The Forum was also addressed by the Chairman of the Supreme Admi-

nistrative Court Mr. Konstantin Penchev, Prosecutor General of the Republic of Bulgaria Mr. Boris Velchev, Chairman of the National Audit Office of the Republic of Bulgaria Prof. Valeri Dimitrov, Mayor of Sofia Mr. Boyko Borisov, Mr. Fernando Ponz Canto, First Secretary in the Representation of the European Commission in Bulgaria, Minister of the State Administration and Administrative Reform Mr. Nikolay Vasilev, Mr. Roumen Nenkov, Deputy-Chair of the Supreme Court of Cassation, Member of the Supreme Judicial Council and Chair of its Anti-Corruption Commission, Minister of Interior and Chair of the Commission for Prevention and Countering of Corruption Mr. Rumen Petkov, Chairman of the Bulgarian Judges Association and Justice at the Supreme Court of Cassation Mr. Stoil Sotirov and others.



## **Part Two**

# **Administration and Management**



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# 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, has prompted an overhaul of CSD's financial management. In particular, in 2007 CSD has been preparing its internal procedures for working under the 2007-2013 EU financial instruments – the 7th Framework Programme, the funding instruments in the JHA area, the operational programs, administered by the Bulgarian government, etc.

The changing funding environment entails also an enhancement of the institutional capacity of the Center. In 2007, CSD prepared for an improvement in the following areas of strategic management:

1. Methods for organizational diagnostics and horizon scanning;
2. Business modeling;
3. Collaborative work based on software products;
4. Public relations and advocacy training;
5. Training on requirements engineering and team building.

Accountability and transparency are the leading principles of CSD's financial and administrative management. They are also a key to CSD commitment to being the watchdog of reforms in Bulgaria.

These qualities have been strengthened through a number of channels:

- publishing independent, annual audit reports (since 1992; CSD's financial statements and KPMG audit report for 2007 follow);
- performing audits of individual projects (since 1992);
- publishing annual reports (since 1994);
- uploading detailed information on CSD's activities on its web-site;
- releasing information on projects and activities in the mass-media;
- publishing a range of print materials;
- strengthening of the consulting arms of CSD – Vitosha Research and Project One.

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

In 2007, CSD employed 33 staff of which 27 were professional and management, including part-time consultants, and 6 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  
Miriana Ilcheva, Project Assistant  
Galina Sapundjieva, Project Assistant

### 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

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European Program

Boyko Noev, Ambassador, Director

Emil Tzenkov, PhD, Senior Fellow

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

Philip Gounev, Research Fellow

Milena Yordanova, Assistant

Maria Doichinova, 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

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## General Assembly

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

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# Sources of Support and Cooperation

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



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## **Part Three**

### **Financial Review**





CENTER FOR  
THE STUDY OF  
DEMOCRACY

**Center for the Study of Democracy**

**Consolidated Financial Statements for the year ended 31 December 2007**

**With Independent Auditors' Report Thereon**





## Independent Auditors' Report

To the General Assembly of  
Center for the Study of Democracy

Sofia, 5 June 2006

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

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

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

Krassimir Hadjidinev  
Partner

KPMG Bulgaria OOD  
37 Fridtjof Nansen Str.  
1142 Sofia  
Bulgaria

## Consolidated income statement

For the year ended 31 December 2005

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

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

## Consolidated balance sheet

As at 31 December 2005

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

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

 30 April 2006  
Vladimir Yordanov

*Executive Director*

## **Consolidated statement of changes in equity**

### **For the year ended 31 December 2005**

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

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

## Consolidated statement of cash flows

For the year ended 31 December 2005

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

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

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

### **Legal status**

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

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

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

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

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

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

Project 1 EOOD was established in 2003. Its main activity is purchase, sale and rent of real estate property, project management and others.

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

## **Significant accounting policies**

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

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

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

The consolidated financial statements are presented in BGN.

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

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

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

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

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

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

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

**(d) Foreign currency**

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

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

**(i) Owned assets**

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

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

**(ii) Leased assets**

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

**(iii) Subsequent costs**

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

**(iv) Depreciation**

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

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

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



**(f) Intangible assets**

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

**(i) Subsequent expenditure**

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

**(ii) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software 4 - 5 years

**(g) Trade and other receivables**

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

**(h) Inventories**

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

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits.

**(j) Impairment**

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

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

**(j) Impairment (continued)**

**(i) Calculation of recoverable amount**

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

**(ii) Reversals of impairment**

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

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

**(k) Trade and other payables**

Trade and other payables are stated cost.

**(l) Revenue**

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

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

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

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

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

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

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

**(m) Expenses**

**(i) Net financing costs**

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

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

**(n) Income tax**

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

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

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

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

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

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

**(o) Segment reporting**

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

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

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

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

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

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

## Notes to the consolidated financial statements

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

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

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

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

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

### **Business segments**

The Group comprises the following main business segments:

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

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

In BGN	Note	Non-profit activities			Trading activities and economic research			Trading activities related to real estate property			Eliminations			Consolidated		
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
Revenue from:	<b>2</b>															
grants and contributions		1,157,370	1,980,583	-	-	-	-	-	-	-	-	-	-	-	1,157,370	1,980,583
sale of services		-	-	-	364,731	405,645	126,554	68,371	-	-	-	-	-	-	491,285	474,016
sale of property, plant and equipment		-	-	-	-	-	1,508,679	-	-	-	-	-	-	-	1,508,679	-
financing for fixed assets		43,336	56,252	-	-	-	-	-	-	-	-	-	-	-	43,336	56,252
Total revenue		1,200,706	2,036,835	364,731	405,645	1,635,233	68,371	-	-	-	-	-	-	-	3,200,670	2,510,851
Inter-segment revenue		-	-	-	-	50,350	38,880	-	-	-	-	-	-	-	(38,880)	-
Total revenue		1,200,706	2,036,835	364,731	405,645	1,685,583	107,251	-	-	-	-	-	-	-	3,200,670	2,510,851
Expenses on grants and contributions	<b>3(a)</b>	(1,176,304)	(1,870,563)	-	-	-	-	-	-	-	-	-	-	-	38,880	(1,125,954)
Operating expenses related to trading activities	<b>3(b)</b>	-	-	(317,906)	(340,792)	(1,546,153)	(118,180)	-	-	-	-	-	-	-	(1,864,059)	(458,972)
Cost of sales	<b>3</b>	(1,176,304)	(1,870,563)	(317,906)	(340,792)	(1,546,153)	(118,180)	-	-	-	-	-	-	-	38,880	(2,290,655)
Other income		299	300	-	-	-	-	-	-	-	-	-	-	-	299	300
Administrative expenses	<b>4</b>	(189,896)	(141,041)	-	-	-	-	-	-	-	-	-	-	-	(189,493)	(141,041)
Impairment losses		-	-	(11,225)	-	-	-	-	-	-	-	-	-	-	(11,225)	-
Gross profit		(165,195)	25,531	35,600	64,853	139,430	(10,929)	-	-	-	-	-	-	-	10,238	79,455
Net financing income/ (costs)	<b>6</b>	114,231	(176,232)	1,261	(7,810)	(19,881)	132,467	-	-	-	-	-	-	-	95,611	(51,575)
Profit before tax		(50,964)	(150,701)	36,861	57,043	119,549	121,538	-	-	-	-	-	-	-	105,849	27,880
Income tax expense		-	(3,390)	(5,531)	(10,991)	(14,722)	(15,630)	403	-	-	-	-	-	-	(23,179)	(13,213)
Profit for the period		(50,964)	(154,091)	31,330	46,052	104,827	105,908	(2,523)	-	-	-	-	-	-	16,798	14,667
Total assets		2,950,414	3,111,504	243,938	209,234	2,053,070	1,486,080	(1,758,386)	-	-	-	-	-	-	3,489,036	3,308,018
Total liabilities		349,432	459,559	30,760	27,386	927,771	1,316,860	(1,019,293)	-	-	-	-	-	-	288,670	284,527
Cash flows from operating activities		(389,715)	(432,490)	24,968	56,929	(15,271)	(224,077)	-	-	-	-	-	-	-	(380,018)	(599,638)
Cash flows from investing activities		3,970	602,227	(7,094)	(11,238)	248,949	(462,769)	-	-	-	-	-	-	-	245,825	128,220
Cash flows from financing activities		230,000	(839,051)	-	(5,018)	(230,000)	839,051	-	-	-	-	-	-	-	-	(5,018)

## Notes to the consolidated financial statements

### 2. Revenue

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



**3. Cost of sales**

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

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

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

**b) Expenses related to trading activities**

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

**4. Administrative expenses**

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

**5. Impairment losses**

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

**6. Net financing costs**

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

## 7. Income tax expense

### Recognised in the income statement

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

## 8. Property, plant and equipment

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

## 9. Intangible assets

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

## 10. Assets held for sale

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

## 11. Investments

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

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

## 12. Deferred tax assets and liabilities

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

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

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

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

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

## 13. Trade and other receivables

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

**14. Cash and cash equivalents**

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

**15. Deferred expenses**

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

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

**16. Trade and other payables**

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

**17. Deferred financing**

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

## 18. Financial instruments

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

### *Foreign exchange risk*

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

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

### *Interest rate risk*

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

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

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

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

### *Credit risk*

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

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



## 19. Related parties

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

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

## Transactions with directors and executive officers

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

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

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

## 20. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

## 21. Subsequent events

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

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

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

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

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

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

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

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

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

