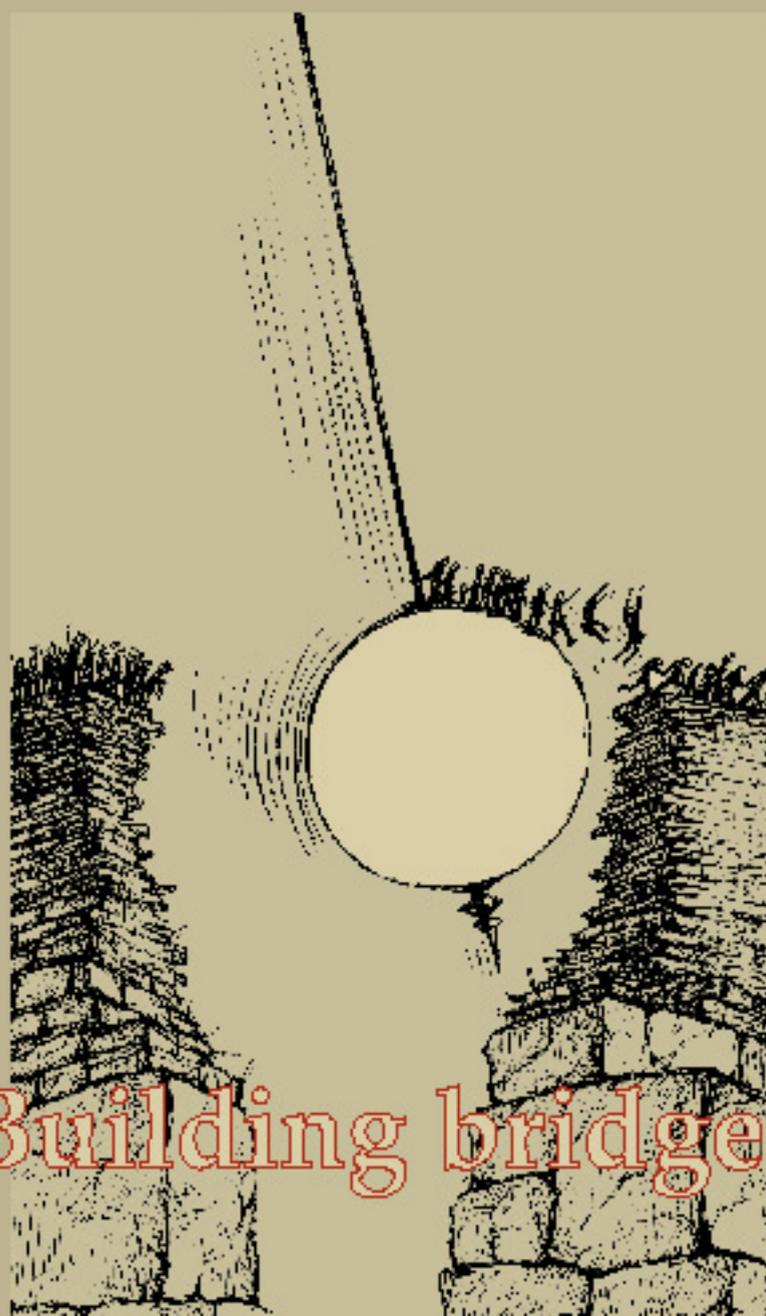


CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 2001



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
2001 ANNUAL REPORT**



Drawing: Anri Koulev

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Center for the Study of Democracy

Building Bridges between Scholars and Policy Makers

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

CSD objectives are:

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

CSD encourages an open dialogue between scholars and policy makers and promotes public-private coalition building. As a full-service think tank, the Center achieves its objectives through policy research, process monitoring, drafting of legislation, dissemination and advocacy activities, building partnerships, local and international networks.

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Table of Contents

INTRODUCTION	7
PART ONE: PROGRAM REVIEWS	9
LAW PROGRAM	11
I. LEGISLATIVE REFORM	12
II. JUDICIAL REFORM INITIATIVE	16
III. CONTRIBUTING TO ENHANCED NGOS CAPACITY	17
IV. OTHER ACTIVITIES	18
ECONOMIC PROGRAM	19
I. BUILDING CRITICAL ADVOCACY CAPACITY FOR CORPORATE GOVERNANCE REFORM IN BULGARIA	19
II. ENHANCING THE BUSINESS ENVIRONMENT FOR FOREIGN DIRECT INVESTMENT	22
III. EXPLORING THE FRONTIERS OF "THE NEW ECONOMY" AND E-DEVELOPMENT THROUGH THE BULGARIAN DEVELOPMENT GATEWAY	24
VITOSHA RESEARCH/SOCIOLOGICAL PROGRAM	28
I. SOCIAL AND ECONOMIC RESEARCH	28
II. CORRUPTION SURVEYS	32
III. IT PROJECTS	34
IV. PUBLIC OPINION, MEDIA AND MARKET RESEARCH	37
V. PUBLICATIONS	40
EUROPEAN PROGRAM	42
I. FACILITATING DIALOGUE	42
II. POLICY STUDIES	44
INFORMATION CENTRE ON THE COUNCIL OF EUROPE IN SOFIA ..	47
BEYOND ANTICORRUPTION RHETORIC: COALITION BUILDING AND MONITORING	50
PART TWO: ADMINISTRATION AND MANAGEMENT	57
PART THREE: FINANCIAL REVIEW	67

Introduction

One of the key missions of a think tank in a country in transition is to anticipate the rising challenges to society and to work with the stakeholders to develop and advocate solutions. National and global developments in 2001 – some of them unfortunately tragic – have shown that CSD is addressing issues that are at the forefront of the Bulgarian and international agenda. In particular, these include coalition building in anti-corruption and the impact of the new soft security risks on democracy and the rule of law.

For Bulgaria, 2001 was the year of parliamentary elections that brought to power a new coalition government. One of its main stated intentions was to prioritize anti-corruption in its reform policies. This came at a time when CSD, and its partners under *Coalition 2000*, had built up a significant capacity in establishing partnerships among public and non-governmental institutions in the various areas of combating corruption – monitoring, awareness, legislative and judicial reforms, etc. For almost four years, the Center has been advocating that integrity and good governance are the keys to successful reforms, and that rooting out corruption could only be achieved by combining commitment at the policy level, participation and watchdog at the civic, and international assistance which supports both. Time has vindicated this vision and the *coalition building approach* – particularly in anti-corruption – is now widely appreciated internationally. It is also growingly accepted as indispensable by politicians and foreign development agencies in Bulgaria as well.

Among the key benefits of the public-private partnership approach is the sustainability it provides to reform efforts. Most of the policy areas of transition – anti-corruption in particular – are susceptible to being used by political parties for short term advantages that could compromise the long term objectives; they could also be heavily influenced by the election cycle. It is only the institutionalized involvement of civil society in the process of reforms that guarantees its sustainability. This was exemplified by the change of government in Bulgaria in 2001 when the anti-corruption expertise accumulated in the framework of *Coalition 2000* allowed the government to tap into a considerable expert resource to be used in designing anti-corruption programs. Thus the efforts which CSD has been making over the years to ensure its *institutional capacity and viability* as a non-governmental institution promoting reforms in Bulgaria have proven crucial to fulfilling its main mission – building bridges between scholars and policy makers.

Over 12 years of experience in working in various policy areas have allowed CSD to develop the expertise to develop new pieces of legislation in areas that had not been regulated before and to advocate for their adoption by Parliament.

As Bulgaria is among the few European countries without an ombudsman institution, CSD has been promoting the concept of the ombudsman for four years now. Having developed a draft law which was introduced to Parliament in 2000, in 2001 the Center put a lot of effort into popularizing the institution and its benefits to society, including through a number of international discussions. In 2001, the draft was

developed further, with the latest version highly evaluated by the ombudsman institutions of a number of European countries and the European Ombudsman as following the European standards in this area.

Another law drafted by a CSD expert team was the Law on Electronic Document and Electronic Signature. The drafting process was initiated by the CSD in early 1999 with a comprehensive research of the most important foreign and international instruments already adopted or in process of preparation. The law was elaborated through a number of consultations and discussions held with representatives of the stakeholders, lawyers and IT experts and takes into consideration most of the opinions, suggestions and recommendations made. It is based on the main principles of EU law and on a number of international acts and successfully implemented national provisions in other countries. After the National Assembly - Bulgaria's Parliament - adopted the law in March 2001, CSD continued its work with the State Telecommunications Commission on developing the secondary legislation required by the law.

CSD's has been concerned with the new risks that soft security issues place for the emerging institutions in transition countries for two years now. The ability of organized crime to smuggle large quantities of drugs and commercial goods across the Balkan borders depends on a corrupt law enforcement in these countries. CSD's work in this area started with the development of methodology for assessing the link between smuggling and corruption in Bulgaria. In 2001, it expanded to include a regional approach making a connection between the developments in all Southeast European countries.

Another major regional initiative of CSD in 2001 was the introduction of a *Regional Corruption Monitoring System (RCMS)* in Southeast Europe. The first ever region-wide corruption diagnostics were carried out in Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia. The main goal of the comparative analysis contained in the RCMS is to show the public significance of the problem of corruption and the extent to which corruption has penetrated into the various sections of these societies. The RCMS is a unique effort which has not been undertaken in the region before as it measures both public attitudes as well as the actual spread of corruption in the countries. It allows a comparison of the public sectors most affected by corruption thus providing objective data for the design of regional anti-corruption policy instruments.

In summary, the year 2001 was another step in fulfilling CSD's mission of building bridges – this time between the problems of security and the issues of democracy.

Sofia, February 2002



Dr. Ognian Shentov
CSD President

Part One

Program Reviews

Law Program

In the year 2001 the main goal of the Law Program was promotion of democratic institution building in Bulgaria, focusing on legislative and judicial reform. As a result of CSD's efforts in this respect the Law on Electronic Document and Electronic Signature was adopted by the Parliament and the Draft Law on Civic Defender and Local Civic Mediators was further elaborated and prepared for consideration by the legislators.

2001 Highlights

- The expert group with the Law Program related to information society development in Bulgaria focused on the Draft Law on Electronic Document and Electronic Signature. The draft Law developed by its experts was adopted by the National Assembly in March 2001. The Law regulates electronic document and electronic signature as well as the conditions and the procedure for providing certification services. It makes Bulgaria among the first countries in Europe with modern legislation in this area corresponding to EU Directives.
- Further efforts of the Law Program in the field of the electronic document and electronic signature regulation are focusing on the development of the secondary legislation necessary to finalize the legal framework for electronic signatures. Law Program experts actively participated in the State Telecommunication Commission task force, which elaborated the draft regulations for the implementation of the Law on Electronic Document and Electronic Signature, which have been completed in the end of 2001 and were submitted to the Council of Ministers for adoption.
- Following the priorities of the Program for Judicial Reform developed within the framework of the *Judicial Reform Initiative*, the Law Program started to work on introducing modern registration system in Bulgaria. A task force of experts to elaborate a Concept Paper on the reform of the Bulgarian registration system was formed in 2001. The Concept Paper is being developed based on a comprehensive analysis of the possibilities for reforming the existing system of official registers and proposals for legislative amendments necessary to facilitate its introduction. The objective is to introduce an out of court centralized electronically based registration system providing for faster and more effective operation.
- The Law Program continued its work on further developing the Draft Law on the Ombudsman. The improved Draft Law on Civic Defender and Local Civic Mediators was presented to the European Ombudsman Mr. Jacob Soederman, to the Chair of the newly elected Parliament and respective Parliamentary Committees as well as at several international and domestic events.

I. Legislative Reform

1. Creation of an Appropriate Legal Environment for Introduction of Electronic Documents and Electronic Signatures

Over the last a few years there have been strong efforts to set up a global regulatory framework for the use of electronic means of communication, including both general rules and regulations of specific fields, such as electronic commerce, digital signatures, electronic documents, etc. A number of international instruments, for instance, the Model Law on Electronic Commerce of the United Nations Commission on International Trade Law, the Guidelines on Cryptography of the OECD, Directive 1999/93/EC of the European Parliament and of the Council of December 13, 1999 on a Community Framework for Electronic Signatures, Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market (Directive on Electronic Commerce, have been adopted or are in the process of adoption. Nearly all industrialized countries in Europe, America and Asia have taken steps for drafting and introducing legislation on the use of electronic means of communication.

Completion of the Legislative Procedure

The work on the legal framework for the use of electronic documents and electronic signature in Bulgaria marked a significant progress in 2001 with the adoption of the Law on Electronic Document and Electronic Signature. The drafting process was initiated by the

Law Program of the CSD in early 1999 - it started with comprehensive research of the most important foreign and international instruments already in place or in the process of preparation. A Task Force was set up to work on a Concept Paper and a Draft Law on Electronic Document and Electronic Signature; an Expert Advisory Board consisting of representatives of the major interested parties (business associations, government regulatory bodies and ministries, legal and IT experts) was established to ensure the quality of legislative proposals. In 2000 the Concept Paper and the Draft Law on Electronic Document and Electronic Signature were finalized; on September 28, 2000 the Council of Ministers approved the Draft and submitted it to the National Assembly. In the Parliament this Draft Law was discussed in the Committee on Legal Issues and Anticorruption Legislation and in the Committee on Economic Policy. The Law on Electronic Document and Electronic Signature was adopted by the National Assembly on March 22, 2001 and promulgated in the State Gazette No. 34 of April 6, 2001; it entered into force on October 7, 2001.

The Law on Electronic Document and Electronic Signature was drafted after extensive consultations and discussions held with representatives of the stakeholders, legal and IT experts; most of the opinions, suggestions and recommendations made in the course of these discussions were taken into account. The text is based on the principles of Directive 1999/93/EC and on a number of international acts and on successfully implemented national provisions in other countries.

During 2001 the Law Program experts working on the Law actively participated at all stages of the legislative process

in the National Assembly; they also took part in the dissemination activities after the adoption of the Law as lecturers at a number of seminars and workshops discussing the newly adopted legal provisions.

The Law includes provisions on electronic document and electronic signature as well as on the conditions and procedures for providing certification services. It regulates the application of electronic signature not only in the area of contracts and obligations but also in other legal fields. The Law does not include an obligation for anyone to use electronic documents and electronic signature but it provides such an opportunity to everyone which means that without additional state involvement the area of applicability of this Law will be in fact limited only to obligations and contracts.

Drafting Secondary Legislation

The preparation of the regulations on the implementation of the Law on Electronic Document and Electronic Signature was assigned to the State Telecommunications Commission* – this process was completed by November 2001 and draft ordinances were submitted to the Council of Ministers for consideration.

The members of the Law Program Task Force provided expert assistance and participated in the Working Groups to the State Telecommunications Commission charged with this task. They contributed substantially in drafting the regulations on the implementation of the Law – the Regulation on the Requirements to the Algorithms for Advanced Electronic Signature, the

Regulation on the Procedure for Registration of the Certification-Service-Providers and the Regulation on the Activities of the Certification-Service-Providers, the Procedure for Termination of their Activities and on the Requirements for Provision of Certification Services.

Preparing Comments on the Law

Following the adoption of the Law on Electronic Document and Electronic Signature, the CSD Law Program set up a Task Force to prepare Comments on the Law including the following experts: Dr. Maria Yordanova, Head of the CSD Law Program, Dr. Angel Kalaidzhiev, Associate Professor, Law School of Sofia University, Dr. Vessela Stancheva, Attorney at Law, Justice Borislav Belazelkov, Supreme Court of Cassation, Mr. Stephan Kyutchukov, Partner, *Djingov, Gouginski, Kyutchukov & Velichkov* law firm, Mr. Georgi Dimitrov, Partner, *O.R.A.C.* law firm, and Dr. Alexander Katzarski, Associate Professor, Law School of Sofia University. Several meetings of the Task Force were held and a preliminary draft of the Comments was prepared.

Parallel to the preparation of the Comments the CSD Law Program started working on the publication of a second revised edition of a book on the legal aspects of electronic commerce and the use of electronic signature whose the first edition had been published in April 2000. Comprehensive research on recent legislative developments in this field was carried out; several newly adopted foreign and international acts were collected and translated into Bulgarian.

* *By amendments to the Law on Telecommunications effective as of February 5, 2002 (SG N112/29.12.2001) the State Telecommunications Commission was replaced by Commission for Regulation of Communications.*

2. Introducing the Institution of the Ombudsman in Bulgaria

Bulgaria is among the few European countries without an ombudsman institution so far. Existing mechanisms cannot always guarantee timely, efficient and easily accessible protection of individuals affected by the actions of the state. As a result, cases of maladministration, including abuse of power, corruption and violation of human rights, are widespread. That is why a new mechanism, parallel to the existing institutions, is necessary to complement their work in protecting human rights. In most European countries this task is performed by the ombudsman institution as an out-of-court mechanism complementary to the more expensive and cumbersome forms of protection (judicial, administrative and other).

The launch of an Ombudsman-type institution in Bulgaria was put on the public agenda by the CSD Law Program in early 1998. The work started with research and analysis of the existing legal framework as well as the experience of such institutions in a number of established and new democracies; later, a Concept Paper was written on the subject and a Draft Law on the Ombudsman for Bulgaria was prepared.

In November 2000 the Draft Law on Ombudsman was presented by a group of members of the Parliament to the National Assembly in order to open a legislative procedure for its adoption. Another Draft on People's Defender was also submitted by another member of the Parliament. The National Assembly, however, could not adopt the Draft Law on the Ombudsman before the parliamentary elections in

June 2001. In the meantime, the Task Force of the CSD Law Program continued its work on the text and introduced further changes. The last version, entitled Draft Law on the Civic Defender and the Local Civic Mediators, was brought to the attention of the newly elected National Assembly in August 2001.

As Chief Parliamentary Ombudsman of Sweden I have cooperated for some years with the Center for the Study of Democracy to promote its efforts to introduce the Ombudsman Institution in Bulgaria.

Mr. Claes Eklund, Chief
Parliamentary Ombudsman of
Sweden

Recent Developments

The submitted Draft Laws are now being discussed in the committees of the 39th National Assembly. In October and November 2001 the Parliamentary Committee on Human Rights and Religions and the Parliamentary Committee on Civil Society Issues organized discussions of the presented drafts - a number of representatives of the policy making community and other stakeholders participated in these discussions focusing on the necessity of an Ombudsman-type institution for Bulgaria. Experts of the CSD Law Program took an active part - they presented the accomplishments of the CSD in this field and shared their experience in the course of the work on the Draft Law. The CSD Law Program provided the Chair of the Parliament and respective Committees with the last version of the Draft Law on Civic Defender and Local Civic Mediators prepared by its Task Force.

Introducing Public Mediator for Sofia Municipality

Parallel to the work on the Draft Law the CSD Law Program continued its efforts to introduce ombudsman-type mechanisms at the local level. In year 2001 the successful implementation of a number of projects launched within the framework of *Coalition 2000* led to the establishment of civic observers in several Bulgarian municipalities. The new chapter, concerning local civic mediators, was included to the Draft Law on the basis of their experience and accomplishments.

An important step in the process of introducing local ombudsman institutions was the launch of such an institution in Sofia. On May 23, 2001 the Sofia Municipal Council decided that a Public Mediator Institution be established for the Sofia Municipality; it also adopted the Rules on the Organization and Activities of the Sofia Municipality Public Mediator. Presentation of the local ombudsman institution and its role in the democratic society was organized in June by Sofia municipality and the CSD.



From left to right: Ambassador Jose Angel Lopez-Jorin, Embassy Spain, Mr. Stefan Sofianski, Mayor of Sofia and Mr. Winfried Schlote, Deputy Head of Misson, German Embassy at the presentation.

Until the adoption of the relevant legislation the Sofia Public Mediator office will operate on an experimental basis. Elections for a mediator will be held by the Sofia Municipal Council every two years; incumbency in office will be limited up to two consecutive mandates. The Public Mediator has the authority to carry out investigation, mediation between the parties involved, bringing abuse of office to the attention of the local authorities and making public statements. The Public Mediator will report to the Mayor of Sofia and to the Sofia Municipal Council; he/she will be held accountable to them for violations of the law he/she committed.

3. International Events

On September 12–16, 2001 an international seminar „Ombudsmanship: Prospects and Challenges for the Twenty First Century“ was held in Nicosia to celebrate the tenth anniversary of the Office of the Commissioner for Administration (Ombudsman) of Cyprus. CSD was represented at this event by the Head of the Law Program Dr. Maria Yordanova and the Executive Secretary of *Coalition 2000* Ms. Valeria Bouhlarska. A discussion of



Participants in the international seminar „Ombudsmanship: Prospects and Challenges for the Twenty First Century“

such issues as recent developments, current trends and future challenges for the Ombudsman as well as its role in the XXI century took place.

The seminar focused on a number of specific problems faced by the institution of the Ombudsman in different countries. The major topics included:

- Ombudsmanship: Prospects and Challenges in the XXI Century;
- The Effectiveness of the Ombudsman in the Oversight of Administrative Conduct of Public Bodies;
- Democracy, Accountability and the Office of the Ombudsman;
- Moving from Adversarial to Non-adversarial Approaches: A Contemporary Approach in Ombudsmanship;
- The Proactive, Preventive and Educational Role of the Ombudsman;
- The Role of the Ombudsman in Balancing the Exercise of Authority by the Governmental and Government Accountability.

A number of distinguished speakers addressed the seminar, including Mr. Jacob Soederman of the European Ombudsman; Ms. Eliana Nicolaou, Commissioner for Administration of Cyprus; the UK Parliamentary Commissioner for Administration Mr. Michael Buckley, Mr. Pierre-Yves Monette, Federal Ombudsman of Belgium; Dr. Peter Kostelka, Member of the Austrian Ombudsman Board; Finland's Parliamentary Ombudsman Mr. Lauri Lehtimaja, Ms. Kerstin Andre, Parliamentary Ombudsman of Sweden, Prof. Oleg Mironov, Commissioner of



Professor Nikiforos Diamandouros, National Ombudsman of Greece and Dr. Maria Yordanova, Head of the Law Program at the seminar

Human Rights in the Russian Federation, the Greek Ombudsman Prof. Nikiforos Diamandouros; Ms. Nana Devdariani, Public Defender of Georgia, etc. The participants encouraged the efforts of the CSD for introduction of the institution of the Ombudsman in Bulgaria noting its importance for the consolidation of civil society and expressed their willingness to further cooperate in the future.

For some years now in my academic capacity, I have collaborated with the Center for the Study of Democracy to promote the initiatives and activities related to democratization in Bulgaria. More recently in my capacity of National Ombudsman of Greece I have been in even closer cooperation with CSD in the process of introducing the Ombudsman institution in the Bulgarian civic environment.

Professor Nikiforos
Diamandouros, National
Ombudsman Of Greece

II. Judicial Reform Initiative

The *Judicial Reform Initiative* (JRI) was launched in March 1999 by CSD as a joint initiative of eight leading Bulgarian non-governmental organizations and representatives of the Legislature, the Executive and the Judiciary. Within its framework a Program for Judicial Reform was drafted on the basis of joined efforts of influential NGOs, policy makers and experts in this field.

In 2001 the Law Program continued to serve as the JRI Secretariat in the implementation of the Program for Judicial Reform:

- In the beginning of year 2001 the efforts of the Law Program focused on increasing the transparency in the initiated legislative procedure for amending the Criminal Procedure Code and the Law on the Judiciary. The Law Program collected expert statements on the proposed amendments by prominent Bulgarian and foreign legal experts and submitted them to the policy makers in charge. CSD published these statements on its web site, thus providing unlimited public access.
- With the assistance of prominent Bulgarian legal experts within the framework of JRI the Law Program started working on a Concept Paper on reforming the court registration system in Bulgaria and introducing an out-of-court central electronic registry for NGOs as a first step in creating a Central Electronic Registry of Persons and Property.
- The web pages of the JRI and its founding organizations were updated on a regular basis to provide comprehensive information on the process of judicial reform as well as on the activities of these organizations.
- As a part of the criminal law reform the Law Program started exploring the needs and opportunities for

instituting a modern legal framework in the field of computer and cyber crimes.

Taking into consideration the experience accumulated in the process of implementation the CSD Law Program already started working on updating the Program.

III. Contributing to Enhanced NGOs Capacity

Setting up an appropriate regulatory framework for the non-governmental sector has permanently been a key issue for the CSD Law Program. That is why for the last ten years it has focused on drafting new legislation on the legal status and taxation of NGOs. After the adoption of the Law on Not-for-Profit Legal Persons, effective since January 1, 2001, its efforts targeted further improvement of the legal environment for NGO action. This Law introduced serious regulatory changes, although it does not provide an adequate distinction between the public or mutual benefit not-for-profit organizations or the public perception of their effectiveness. In order to further elaborate and improve the regulatory framework a Task Force of the CSD Law



Law Program Staff (from left to right): Dr. Maria Yordanova, Head, Mr. Dimitar Markov, Project Coordinator, Ms. Rossitsa Elazar, Program Manager, Mr. Konstantin Tanev, Fellow.

Program drafted a proposal for amending the Law in the following aspects:

- setting up a body on special reassures responsible for the registration of public benefit organizations on the basis of clear legal criteria;
- guaranteeing transparent activities of the public benefit organizations and reducing the opportunities for abuse with public funds on the basis of reasonable responsibilities for the NGOs and control over their activities;
- the body on special reassures should be responsible for the control over the not-for-profit activities of the organizations registered by it while the National Audit Office should exercise control over their business activities;
- preventing the possibility that legal persons with not-for-profit status, registered before January 1, 2001, claim to be mutual benefit organizations if they were donated property by the State, the municipalities or from other public funds, or their activities have been supported by voluntary acts or work of private persons, except for their founders and members;
- transferring of the registry for not-for-profit legal persons from the courts to the Ministry of Justice.

In 2001 the Law Program continued to pay special attention to the long-term educational program for civic organization managers which is implemented in co-operation with the School of Economics and Business Administration at Sofia University within the framework of a specialized Master Program. A course, based on the Open and Distance Learning Program – General and Financial Management of Public and Private Not-for-Profit Legal Entities, was developed by a consortium

coordinated by CSD in partnership with the Greek Management Association, and the Universities of Sofia (School of Economics and Business Administration) and Skopje (School of Law). This activity is in line with the CSD's long-term pro-active policy to support the professional development of human resources in the public and private sector, thus creating a better environment for the work of civic organizations. In year 2001 CSD experts took part as instructors in the course modules on legal issues and general and financial management; about 20 students attended the class.

IV. Other Activities

On March 7th, 2001 the Law Program organized a discussion on the Court Administration Reform in Bulgaria. This discussion was launched by the new President of the N2 Diplomatic Club Mr. Winfried Schlote, Deputy Head of Mission of the Embassy of Germany. Guest lecturers, such as Mr. Vladislav Slavov, Chair of the Supreme Administrative Court and of the Union of Jurists in Bulgaria, and Ms. Kapka Kostova, Chair of Sofia Regional Court and of Association of Judges in Bulgaria, made presentations on the ongoing reform of court administration in Bulgaria. Mr. Slavov briefed the participants on the activities of the Supreme Administrative Court and the work on reforming its administration while Ms. Kostova spoke on the projects targeting improved court administration performance in which the Association of Judges in Bulgaria was involved. The discussion focused on issues of judicial control over the administration, proposed changes in criminal procedures and opportunities for training judges and other judicial officials.

Economic Program

In year 2001 the work of the Economic Program focused on the following major issue areas:

- Building critical advocacy capacity for corporate governance reform in Bulgaria. The successful completion of the project **Transforming Business Practice through Corporate Governance** brought the Corporate Governance Initiative (CGI) to a stage at which it is widely recognized as the major national advocate of reform. The efforts of CSD also aimed at including the mass media in this process through the project **Corporate Governance Reform and the Mass Media: Building Critical Advocacy Capacity in Bulgaria**.
- Enhancing the business environment for foreign direct investments. Special efforts to bridge research and policy were made through the project **The Impact of European Union Enterprise Relocation on Inter-Firm Relations in Bulgaria**. In cooperation with partners from other Balkan countries CSD assisted the Applied Research and Communications (ARC) Fund in the implementation of the project **Foreign Direct Investments in Balkan Countries: Alternatives to Reduce Existing Barriers**.
- Exploring the frontiers of the new economy. CSD was at the center of the national effort to join the World Bank initiative of a Global Development Gateway which puts the internet at the service of the goals of development by completing the preparatory stage of the Bulgarian Development Gateway.

I. Building Critical Advocacy Capacity for Corporate Governance Reform in Bulgaria

In year 2001 CSD continued to serve as the Secretariat of the *Corporate Governance Initiative* which also includes the Association of Industrial Capital, the Association of Voluntary Pension Funds, the Center for Economic Development, the Investors' Union and the Securities Holders Association, all working together to change corporate governance practices and introduce standards and procedures ensuring transparency and accountability (www.csd.bg/cgi).

1. Transforming Business Practices through Corporate Governance (CGI)

The specific context of the business environment in Bulgaria and the need for comprehensive measures toward acceptance of the principles of corporate governance in Bulgarian companies have determined the approach followed by the CGI team on this project, completed in April 2001. The main activities included: a) monitoring the state of corporate governance in the country and the impact of the activities undertaken within CGI; b) consensus and coalition building; c) cooperation with partners

from other countries facing similar challenges; and d) dissemination and advocacy for further reform. A task Force of experts held 12 meetings aiming at elaborating the corporate governance indicators in Bulgaria for the purpose of improving the quality of national corporate sector data. The Task Force developed a set of indices to measure the progress in reforming the legal framework for corporate governance, the efficiency of the relevant institutions and the corporate governance practices in Bulgaria. A pilot monitoring survey of Bulgarian publicly traded companies was carried out, designed together with experts from the National Securities Commission, the Bulgarian Stock Exchange - Sofia and the Association of Industrial Capital in Bulgaria and conducted with the help of Vitosha Research.

Corporate Governance Assessment Report

On the basis of the survey results CGI experts drafted a *Corporate Governance Assessment Report* which was discussed at a Policy Workshop held at CSD on April 18. The report provided an overview of the general framework and particular dimensions of the corporate governance in the country; it contained information unavailable up to that time to the professional community and the media. With regard to the **legal and institutional framework** the index of corporate governance was assessed at 3.26 (on a scale of 1 to 5) covering the role of the judicial system, capital market development and efficiency of its institutions, and above all the extent in which the existing legislative framework facilitated or constrained proper governance. The **internal factors of corporate governance as well as company practices** received a lower rating – the value of the index was 3.11 as a whole, including 2.42 on protection of minority

shareholders' rights, 3.47 on composition of boards and boardroom practices, and 3.43 on disclosure of information.

The Corporate Governance Assessment Report is an effective advocacy tool for better understanding of the issues by the public, which can also serve as an important resource for the international business community. CGI intends to replicate it in order to track the changes and trends in the course of corporate governance reform in the Bulgaria.

Corporate Governance Guidelines for Bulgaria

Building on the work already done and in line with the 1999 CGI a Policy Recommendation Paper entitled *Corporate Governance Guidelines for Bulgaria* was drafted; it focuses on the following issues:

- responsibilities and motivation of boards;
- role of the judiciary and improvement of judicial practice;
- promotion of capital market development and role of institutional investors;
- residual state shareholding.

The Guidelines include practical measures for the promotion of a culture of compliance with the existing regulations and appropriate disclosure of information. The set of policy instruments which need to be developed or elaborated should focus on regulation and enforcement along with dissemination and education.

Corporate Governance Policy Workshop – April 18, 2001

The Policy Workshop was the main public event in the project. It brought together more than 30 experts - representatives of

government agencies (ministries, Privatization Agency, Center for Mass Privatization, Foreign Investment Agency), business associations (Bulgarian Chamber of Trade and Industry, Bulgarian Industrial Association, Association of Industrial Capital in Bulgaria, Association of Private Pension Funds), development organizations (World Bank and USAID), academics and journalists from the mass media. The workshop provided a practical framework for consensus building among all parties involved in the implementation of modern corporate governance principles in Bulgaria. All the participants agreed on the role to be played by key actors in this process – the government, Stock Exchange, the business community, the shareholders' associations and the media. The discussions which took place helped prepare the final version of the Corporate Governance Guidelines for Bulgaria.

Dissemination and Advocacy

In the period under review CSD paid a special attention to dissemination and advocacy of the need for corporate governance reform and used all available means for this purpose. The web site of CGI (<http://www.csd.bg/cgi/>) was regularly updated to cover current activities and events - it contains the final version of the Policy Recommendation Paper, legal and other documents, publications of CSD and CGI, such as summary reports, draft documents, press releases, etc.; in addition, it provides links to the websites of partner organizations to facilitate access to relevant information.

The CGI activities received broad coverage in the specialized economic and financial press. Articles on the project outputs were published in specialized daily and weekly newspapers with national distribution, namely *Dnevnik Daily*, *Demokratzia Daily*, *Pari Weekly*, *Pari/Capital Market Weekly*, *Kapital Weekly*, etc.

2. Corporate Governance Reform and the Mass Media: Building Critical Advocacy Capacity

CSD's work in year 2001 aimed at launching a network of corporate governance advocates in the mass media, giving publicity to the efforts undertaken so far in the course of the reform and creating a wide constituency and public opinion in favor of implementation of corporate governance principles in business. For this purpose CSD's efforts focused in particular on:

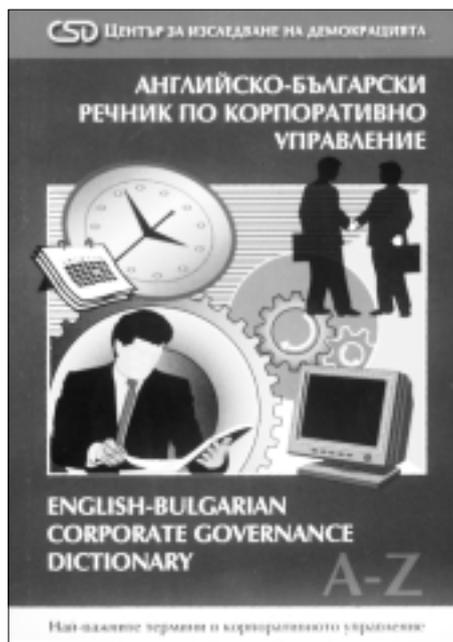
- assessment of the capacity of the Bulgarian mass media to advocate corporate governance reform;
- training a significant number of journalists to cover developments in corporate governance and disseminate the ideas and the know-how formulated in the course of previous projects within CEI;
- providing these journalists with tools necessary for conveying their message to the public.

A preliminary assessment of the coverage of corporate governance reform was instrumental for the success of the project. A survey of about 100 print and electronic media was conducted to assess the capacity for corporate governance advocacy, including journalists responsible for editorial policies as well as reporters. This study helped formulate the major issues for discussion and the forms and methods of training. A set of materials on corporate governance for the seminar is available on the CSD website.

The central element of this project was a training seminar organized by CSD for representatives of the national and regional print and electronic media and held in Sofia on November 20-21, 2001. It had five sessions, each of which devoted to a major issue area of corporate governance (corporate governance

and the relationship between shareholders and management, corporate governance and capital markets, corporate governance and governing bodies, corporate governance and disclosure of information, etc.). Experts who participated in previous projects on corporate governance and representatives of the relevant state bodies (Professor Bistra Boeva, Chair of the Department of International Economic Relations at the University of National and World Economy, Professor Stefan Petranov of Sofia University who is also Chairman of the Board of Directors of the Zlaten Lev Investment Fund, Mr. Manu Moravenov, Director of Trading Surveillance at the Bulgarian Stock Exchange, Professor Plamen Chipev of the Economic Institute of the Bulgarian Academy of Science, Ms. Ralitsa Again, Chair of the Parliamentary Subcommittee on Capital Markets and Securities and Professor Margarita Alexandrova, Member of the State Securities and Exchanges Commission) made presentations or moderated the discussions. The participating journalists had the opportunity to share their ideas about how the issues under consideration could be brought to the attention of a larger audience.

The final phase of the project included publication of a series of articles in a number of print media, namely the national papers *Zastrahovatel Weekly*, *Pari Daily*, *Pari Weekly*, *Ikonomicheski Zhivot Weekly*, the regional *Nov Zhivot Daily* and *Cherno More Daily*, broadcasts of the Bulgarian News Agency, Bulgarian National Radio, etc. As a whole, the involvement of the representatives of the media in the project should contribute toward a greater clarity of the language of corporate governance and lead to better understanding, creating a constituency for corporate governance reform and bringing life to the principle of transparency and disclosure of information.



II. Enhancing the Business Environment for Foreign Direct Investment

CSD has an established track record in promoting foreign direct investment since the beginning of the 1990s. In year 2001 it was involved in two projects on this subject in which it worked with partners from such countries as France, Greece, Albania and Macedonia.

1. The Impact of European Union Enterprise Relocation on Inter-Firm Relations in Bulgaria

This project has had the following objectives: a) to explore the impact of cross-border capital flows on inter-firm relations in Bulgaria; and b) to outline the increasing role of FDI from EU member-states in helping accession countries meet the Copenhagen criteria for EU enlargement. To accomplish these objectives the project team, led by Dr. Vesselin Minchev of the Bulgarian Academy of

Science and Petkan Iliev of the University of National and World Economy, studied the structure and motives of foreign investors in the country, the characteristics and evolution of trans-European equity cross-border activities in Bulgaria parallel to the negotiations for EU accession and the characteristics and evolution of trans-European non equity cross-border activities in Bulgaria (including subcontracting, licensing, franchising, management and turnkey projects). The following tasks were undertaken:

- macroeconomic, geographical and branch structure statistical analysis of outward FDI flows from EU to Bulgaria;
- analysis of the policies for attracting FDI flows to Bulgaria;
- econometric analysis of the determinants of the distribution of FDI entry;
- qualitative analysis and identification of the types of European companies operating in Bulgaria (companies-leaders and companies-followers);
- qualitative analysis and identification of the company strategies in the different regions of Bulgaria (“resource seeking”, “market seeking” and “efficiency seeking” strategies).

As the available information and analysis of the motives and strategies of the foreign cross-border initiatives in the country are still insufficient, a survey of 100 EU-based investors in Bulgaria was carried out to explore equity and non-equity cross-border ventures as well as different types of non-equity contractual arrangements and the preferred forms and networks of the inter-organizational relationships between the EU-based MNCs and local enterprises.

The findings of the field research and their initial analysis were reported at a workshop, held in Sofia on April 25, 2001, to policy makers, academics, rep-

resentatives of NGOs, consultants, local private enterprises and foreign companies doing business in Bulgaria. The discussion at the workshop provided significant material for further analysis was which further done in the research papers by the project team.

The dissemination of the research findings included a presentation at the annual conference of the Center for Economics Research and Graduate Education – Economic Institute (CERGE -EI) grant recipients in Prague, held on July 22 and 23, 2001, and publication of the research papers on the web site of CSD. The project received coverage in the mass media in Bulgaria; its outputs will be used in the preparation of teaching materials in economics, business administration and European studies.

2. Foreign Direct Investment in Balkan Countries: Alternatives to Reduce Existing Barriers

This was an on-going sub-regional project with Applied Research and Communications Fund’s participation in which CSD provided expertise and which was completed in the spring of year 2001. Following up on the project activities for year 2000 which included a planning and coordination meeting in Sofia, design of the macroeconomic indicators for FDI, analysis of the legal framework and a survey of the large and medium-size foreign companies doing business in Bulgaria, the project team undertook a number of case studies and analyzed the environment for FDI.

The project team carried out an analysis of the survey results which served as a basis for the Bulgarian Country Report on Foreign Direct Investment. At a workshop, held on March 9, 2001, business, government, media experts and academics discussed a draft of this

report and proposed policy measures aimed at reduction of the existing barriers and attracting foreign capital.

On the basis of the country reports prepared by the institutions participating in the project (Institute for Development Research and Alternatives and Institute for Contemporary Studies, Albania, ARC Fund, Bulgaria and Forum-Center for Strategic Research and Alternatives, Macedonia) a comparative study of the barriers to FDI in the Balkan countries was prepared by the project coordinator (IDRA) and reported to a Balkan Conference on Foreign Direct Investment, held in Tirana on October 22 and 23, 2001.

III. Exploring the Frontiers of "The New Economy" and E-Development through the Bulgarian Development Gateway (BDG)

The Bulgarian Development Gateway (www.bulgaria-gateway.org) represents the Bulgarian contribution to the World Bank initiative of creating a Global Development Gateway as a network of country development gateways. The goals of this initiative are: a) to facilitate the establishment of a virtual community of government, civil society and private sector organizations with common interest in promoting competitive markets and democracy in a business-friendly environment; b) to empower the local development community to use the internet as a low-cost tool for knowledge-sharing, networking and collaboration; c) to assist this community by providing links to ideas and good practices, information about development activities and trends, funding and commercial opportunities; and d) to increase global access to locally-generated development knowledge.

In the year under review the preparatory stage of the BDG was completed. Its goal

was to assess the potential for development of such a gateway in Bulgaria as well as its likelihood of success and potential impact on social and economic development. CSD provided the overall management of the project in which a number of interested parties (donor organizations, foreign and local businesses, government agencies and NGOs) formed a coalition in pursuit of common developmental goals.

The work included assessment of the needs for a Bulgarian Development Gateway (a study of what the stakeholders expect from it as well as what they could contribute to it), drafting a business plan for launching and sustaining the BDG (defining the potential user communities, their key characteristics and information needs, suggest country specific content/services and possible content suppliers, proposing an implementation strategy, organizational structure and financial plan) and creating a special demo site to be tested and evaluated by users. The project team solicited broad feedback on all the preliminary elements of the strategy, the potential gateway objectives and content components.

Partnership Building

A major element of the preparatory stage was forging a partnership which would be able and willing, one the one hand, to contribute to the BDG and, on the other hand, to take advantage of the opportunities presented by the Gateway for furthering the goals of the individual participating partners. The work in this respect began with two coordination meetings of the BDG Steering Committee, devoted to the broad issue of IT for Development and co-organized with UNDP – one with representatives of the government, NGOs and the donor community held on February 15, 2001 and one with representatives of the private sector and business

associations, held on March 8, 2001. The participants in these meetings gave their support to the idea of a BDG and expressed their willingness to contribute in their respective fields of activity.

To guarantee the success of the initiative CSD worked with individual Gateway partners, including foreign and international donor organizations (the World Bank, UNDP, the European Commission, the US Agency for International Development, etc.), private sector entities and business associations (Bulgarian Association of Information Technologies, Bulgarian American Enterprise Fund, Bulgarian Chamber of Commerce and Industry, Bulgarian Industrial Association, Bulgarian Telecommunications Company, Microsoft, Cisco, Hewlett Packard, etc.), NGOs whose activities are related to the issues of development (CED, EPI, Open Society Fund, etc.) and relevant govern-

ment agencies (Ministry of the Economy, Ministry of Transport and Communications, Ministry of Education, etc.). Partnership agreements (Memoranda of Understanding) were signed with dozens of potential Gateway stakeholders. The BDG management team benefited from the help of the consulting missions of World Bank experts (Dr. George Sadowski in February-March and Professor Elias Karayanis in July 2001) as well as the visits of representatives of the Global Development Gateway team (Mr. Oleg Petrov in February and Ms. Denisa Popescu in August 2001).

CSD paid a special attention to partnership building with other countries' development gateways. It hosted a workshop for the country development gateway teams from Southeast Europe on July 6-7, 2001 in Sofia. Experts from Romania, Moldova, Croatia, Poland, Azerbaidjan, Georgia and Bulgaria shared their experi-



Form left to right: Mr. Thomas O'Brien - World Bank Mission Resident Representative, CSD President Dr. Ognian Shentov, and Dr. Boyan Belev - CSD Economic Program Coordinator at the Sub-Regional Workshop of CDG teams from Southeast Europe in Sofia on July 6 and 7, 2001.

ence on planning and implementation of the preparatory phase of the Gateway; they discussed major challenges and possible common strategies concerning not just this phase but also the next stage of the implementation *per se* of the Country Development Gateway.

Conceptualization of the Country Development Gateway for Bulgaria

The BDG Task Force prepared a **Needs Assessment Report** which analyzed the need for a country gateway among Bulgarian development stakeholders. After holding in-depth interviews with representatives of the relevant government agencies, private business, NGOs and donor organizations the Task Force came to the conclusion that a BDG was both needed and feasible; the work on this report also highlighted the expectations of the Gateway partners and their potential contributions.

The Task Force also drafted a **Business Plan** for the BDG after extensive consultations with the individual Gateway partners. Upon its implementation the Gateway is expected to become a point of association of development stakeholders in Bulgaria, a forum for cooperation among the most active civil society institutions, private sector interests, public figures and government and international agencies in Bulgaria, a permanent framework under which different organizations and individuals can promote developmental programs or projects in the field of development. The BDG should help overcome the digital divide and existing knowledge gaps as well as introduce good governance based on public-private partnership within the development community.

The implementation of a CDG in Bulgaria will be based on an already existing structure – *the Internet Alliance for Economic Development* (www.online.bg/iaed/). This

coalition was established in mid-1999 to promote the use of the internet as a tool for accelerated economic development. It provides an excellent platform for combining the interests of various stakeholders. Based on a distributed content model, the BDG will consist of two fully functional parts (mirror sites) in Bulgarian and English, hosted respectively on a local server and on the central GDG server. The BDG will be built upon two parallel taxonomy trees and divided into three main components: background content, development issues and interactive part.

Prototype Development

A technical team of the BDG worked on developing a prototype on the basis of which the implementation of the Gateway could be based. In close cooperation with the Global Development Gateway technical team it provided a solution to the complex problems involved in design, template building and web hosting - two parallel servers (one nationally based at Bulgaria Online and one at the World Bank) are to be used. With regard to content design the possible architecture of the BDG was agreed upon in May 2001. Updates of the topics resources on the main gateway server were regularly carried out. In order to accomplish these tasks the technical team held two workshops – one portal site building involving experts on building portal sites, database management, e-security, server management, etc. (June 25, 2001) and one on the content strategy involving experts and content provider partners for the Gateway (June 29, 2001).

On July 31, 2001 a public presentation of the Bulgarian Development Gateway prototype took place. The Gateway partners expressed their approval for the parameters of its design and for the implementation strategy chosen by the BDG team.

Bulgaria Development Gateway

Back Forward Stop Refresh Home AutoFill Print Mail

Address http://www.developmentgateway.org/node/94431/

Live News Page Apple Computer Apple Support Apple Store Microsoft HotTopics Office for Macintosh Internet Explorer

BULGARIA DEVELOPMENT GATEWAY - Select Gateway -

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11 May 2002, Saturday

search

This site is a prototype and therefore not fully functional.

Country Overview

Profile

Business Guide

Economic Data

Topic of the week

Economic Growth

See Also

e-government

e-learning

SPOTLIGHT

CHINA CUTS DUTIES ON BULGARIAN IMPORTS
Sofia, 30/04/2002, Bulgaria Online - Domestic customs duties abatement for Bulgarian imports will be introduced by China within the next two years, said deputy minister of economy Milen Kamenedchiev. The maximum duty of 66% will be reduced to 4%. The l... more

Focus on Development

Third GSM license to cost BGN 72,800 (2002-04-30)

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Canadian Cos Interested in Building Bulgarian Nuke Plant (2002-04-29)

BCC Sees Initiatives For USR Investors (2002-04-29)

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Vitosha Research / Sociological Program

2001 Highlights

In 2001 Vitosha Research implemented 50 social, economic, marketing, media and public opinion projects. This work included quantitative and qualitative surveys: about 16,000 face-to-face interviews, 320 in depth interviews and 19 focus groups. The collected information was summarized in over 40 analytical reports and policy papers and 10 newspaper publications.

- For the fourth year Vitosha Research conducted a Global Competitiveness Survey in cooperation with the Center for Economic Development and the World Economic Forum at Davos. On the basis of the survey results and officially published statistical information Bulgaria was included in the official annual Global Competitiveness Report of the World Economic Forum.
- In October 2001 Vitosha Research carried out the second Eurobarometer Survey in a consortium with other agencies from Central and Eastern Europe coordinated by Gallup Hungary.
- The initial results of the implementation of the Regional Corruption Monitoring System of SELDI (Southeast European Legal Development Initiative) were presented in March 2001. The system provides information about the spread of corruption in the region (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Yugoslavia); it has become baseline resource for national and international institutions and organizations.
- In 2001 Vitosha Research continued to systematically expand its scope of activities to cover neighboring and other countries. An important project in this respect became the Human Security Survey conducted in the Caucasus region (Armenia, Georgia and Azerbaijan). This survey is part of a regional UNDP effort and is intended in 2002 to cover the region of Central Asia too.

I. Social and Economic Research

The main subjects of the economic research projects included the competitiveness of the Bulgarian economy, corporate governance reform and company performance, conditions for financing SMEs and NGOs in Bulgaria. In the course of the work on these projects, most of which were commissioned by UNDP, the International Center for Not-for-Profit Law and the Center for Economic Development, Vitosha Research conducted about 500 face-to-face interviews, organized 2 focus groups

and 23 in-depth interviews with ministry and state agency officials, representatives of financial institutions, SMEs, businesses and journalists. It also participated in the preparation of three sections of the monthly *Early Warning Report* for Bulgaria. In addition, Vitosha Research carried out four social research projects, commissioned by the World Bank, UNDP, Regional Initiatives Fund, Ministry of Labor and Social Policy - the fieldwork included about 5 400 face-to-face interviews and 120 in-depth interviews.

1. Global Competitiveness Survey

Since 1998 Vitosha Research has been conducting the annual *Global Competitiveness Survey* in Bulgaria in cooperation with the Center for Economic Development. The survey is part of the efforts of the World Economic Forum at Davos to track major changes in the world economy. The study was based on interviews with managers of Bulgarian and foreign companies and provides information on the business climate in the country and the level of competitiveness of the Bulgarian economy. In 2000 Bulgaria was included for the first time in the official annual report of the World Economic Forum „Global Competitiveness Report 1999“.

2. Early Warning System in Bulgaria

Work on this UNDP-coordinated project includes the monthly publication of Early Warning Reports (EWR). The reports, which have been published on a continuous basis since 1997 explore the dynamics of the overall economic, social, political, religious and ethnic environment in Bulgaria. In cooperation with analysts from the Department of International Relations Association, BBSS and Club Ekonomika 2000 CSD is responsible for four of the seven sections of the report.

Over the last five years EWR has become a baseline resource on socio-economic and political development in Bulgaria. Tracking socio-economic changes has made it possible to provide information and early warning signals for possible adverse effects - recommendations made in this respect have been taken into account by policy makers. Thus, EWR has been able to fulfill its main objective: to anticipate and respond to crisis situations before they become too violent or before their effects get to the point of no return. The

Bulgarian EWR has become a model for launching similar initiatives in the countries of Southeast Europe.

3. Influence of economic restructuring in Bulgaria on the exports sector

This research project, commissioned by the Center of Economic Development, was aimed at an analysis of the main tendencies in companies' exports and their business environment. Its focus was the relationship between ownership change, enterprise privatization outcomes and the level, the structure and the dynamics of the exports. The data obtained from company managers made it possible to make conclusions about the effectiveness of privatization strategies and their impact on export activities.

4. Non-profit organizations in Bulgaria

The survey on non-profit organizations in Bulgaria, financed by the International Center for Not-For-Profit Law, was carried out by Vitosha Research in cooperation with the Resource Center Foundation. The data on the activities of the non-profit organizations in Bulgaria helped come up with policy recommendations for the improvement of the tax environment of the NGO sector.

5. Human Security in the Countries of the Caucasus - Armenia, Azerbaijan, and Georgia

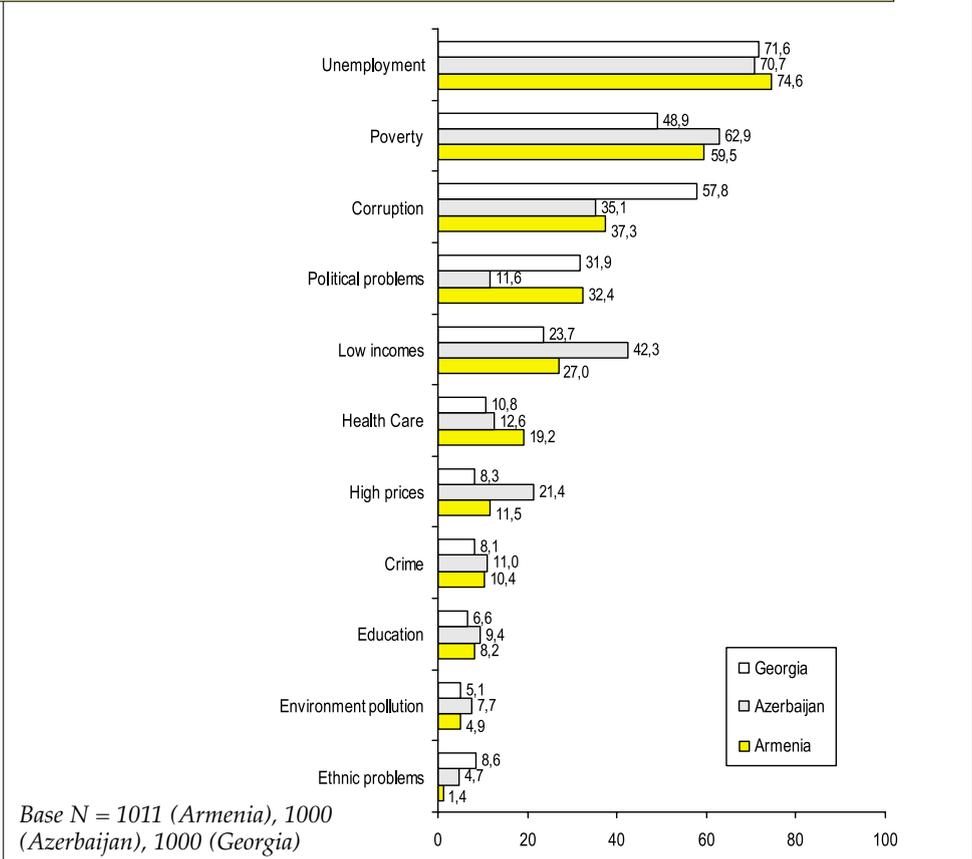
Through this project Vitosha Research extended its activity to include the Armenia, Azerbaijan, and Georgia. Several analytical research methods were used to assess the basic elements of human security (economic security, food security, health security, environmental security, personal and public, and political security) in these three

countries. The project included a qualitative and a quantitative survey in each country.

Research results showed that most of the problems of human security are present in all countries. The citizens generally miss the not too distant socialist past, which they associate with far greater political security, peace and order in general, and on a personal level, with greater financial and emotional well-being. In all three republics of the Caucasus nearly half of those surveyed consider the years of the 1980s as the best period in the overall development of their countries in the 20th century.

In spite of the different extent to which the respondents from these three countries feel personally threatened, unorganized crime seems to be the greatest threat to personal safety – greater than organized crime; people are most afraid of aggression by hooligans and thieves. The most important social problems in all countries are ranked similarly. The list is topped by unemployment followed by poverty, low incomes, and corruption. These problems are typical for all societies in the process of building up new social structure. At the same time, each of these problems has a strong impact in the assessments of living standards revealing the specific dimensions of popular dissatisfaction.

Main problems faced by Armenia, Azerbaijan and Georgia



6. Sociological and Beneficiary Assessment of Potential Low-Income Housing Micro-Projects

The main goal of this project, commissioned by the World Bank, was to identify and analyze housing conditions of people (mainly Roma) from socially disadvantaged groups living in segregated neighborhoods with poor access to basic utilities, as well as to make a social assessment of potential housing programs targeting the Roma population. A combination of qualitative and quantitative methods was used for the implementation of this project.

A qualitative survey (in-depth interviews) was also conducted – it involved representatives of the local authorities, local Roma non-governmental organizations, social workers, and local Roma leaders was conducted. The analysis confirmed the preliminary hypothesis that most of the dwellings inhabited by Roma are in bad condition. Information on the relative share of the different types of Roma dwellings for the

11 neighbourhoods was collected through neighbourhood observation and observation of respondents' homes.

One quarter of the respondents live in one-room flats while the majority lives in two-room flats. Over half of the respondents live in houses of up to 30 sq. m., the average floor area of the respondents' homes being 36 sq. m. An important factor for the efficiency of the housing improvement programs in the Roma neighborhoods is the prompt reaction to the problems related to the ownership of the land on which the Roma neighborhoods are built and the planning and zoning maps of the neighborhoods. In the Roma neighborhoods there is a high rate of illegal construction which takes place indiscriminately on state-owned or municipal property as well as on land subject to restitution; in isolated cases it happens on personally-owned land. Except for the capital, all too often Roma neighborhoods are located outside residential zoning districts, in agricultural areas, forests, or zones under a special regime.

Relative share of types of dwellings based on the observation of 11 neighborhoods and of the respondents' homes

	Percentage (observation card of the neighborhoods)	Percentage (observation card of the dwellings)
Primitive housing (dug-outs, cardboard houses, hovels, etc.)	2,64	5,4
Flimsy structures (wooden sheds, adobe houses, tumbledown houses, etc.)	40,27	42,7
Semi solid one-floor and two-floor structures	40,09	31,5
Solid one-floor, two-floor or higher structures	11,70	9,9
Concrete panel housing	7,00	8,7

7. Beneficiary Assessment of the Results of the Micro-Projects Implemented by the Regional Initiatives Fund

The goal of this survey was to analyze the beneficiaries' evaluations of the outcomes of the micro-projects implemented by the Regional Initiatives Fund (RIF) through a combination of quantitative and qualitative methods. The main target groups of respondents in the quantitative survey were local community members who should benefit from the project. Qualitative methods were also used to obtain information from other sources - local authorities, specific groups of direct beneficiaries, RIF staff and reporters from local media.

On the basis of the assessment a general conclusion was made that RIF micro-projects have been well accepted by citizens in the respective municipalities. Microproject implementation has created additional employment, but so far it hasn't made a substantial difference in this respect because of the relatively small size and short project duration.

8. Establishing a Model Municipality in Razlog

Vitosha Research conducted a base-line survey in the Razlog municipality which was part of a project entitled *Establishing a Model Municipality in Razlog* financed by UNDP. Information was collected using a combination of qualitative and quantitative methods focusing on the residents of Razlog and also on representatives of the municipal and district administration, businesspeople, journalists and representatives of non-profit organizations. On the basis of this survey several conclusions were made:

1. The most important problem faced by the population of Razlog is unemployment. Next by importance come the

low standards of living of a large part of the residents of the municipality.

2. The general expectations of the people employed in the Razlog municipality on the future prospects of the companies or organizations they work for are largely optimistic. Over two thirds of those interviewed believed their companies would either grow or maintain their present position on the market.
3. The three fundamental priorities for the development of the Razlog municipality according to its residents largely match the points of view of the five target groups surveyed: stimulating private business, implementing social programs on the unemployed and socially disadvantaged people and growth of the town of Razlog as an administrative center.

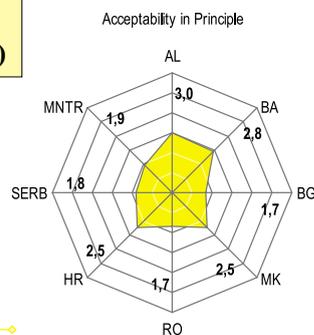
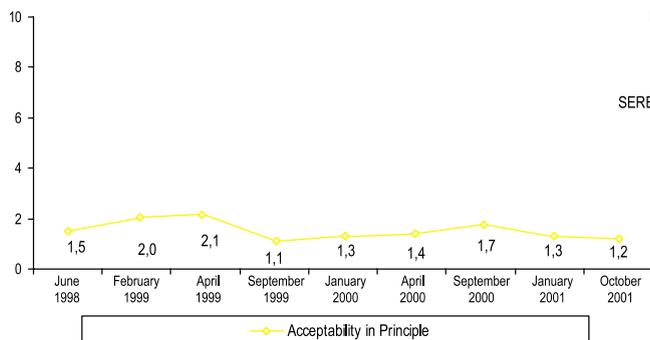
II. Corruption surveys

1. Corruption Monitoring system of Coalition 2000

Vitosha Research has been extensively involved in conducting the surveys of the Corruption Monitoring System (CMS) of *Coalition 2000*. This CMS includes a comprehensive set of qualitative and quantitative techniques for different target groups (general public, businesspeople, public officials, professionals, etc.). In 2001 two quantitative surveys were conducted.

The CMS results have been summarized in the Corruption Indexes of *Coalition 2000* which have been published twice in 2001. The trends observed in 2001 show that public intolerance towards corrupt practices at all levels of authority is growing although not as fast as one would like. Simultaneously the spread of corruption and the reported actual involvement in corrupt practices seem to be stable. This situation has generated

Acceptability of Corruption in General*: Bulgaria 1998-2001, Southeast Europe January 2001 (general public; %)



Source: CMS of Coalition 2000; SELDI

* Note: the maximum value of the index is 10.0 - it indicates the highest possible level of corruption. The minimum value is 0.0 - it indicates an absence of corruption.

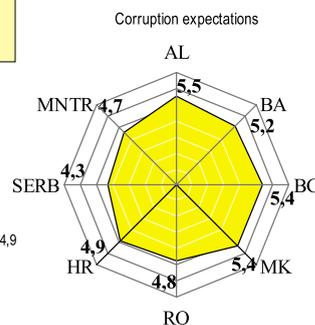
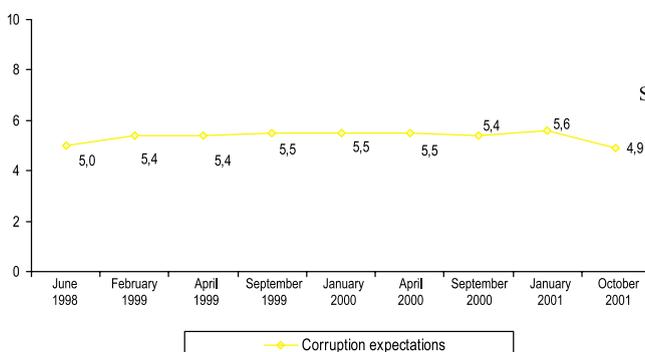
Legend: AL - Albania; BA - Bosnia and Herzegovina; BG - Bulgaria; MK - Macedonia; RO - Romania; HR - Croatia; SERB - Serbia; MNTR - Montenegro.

a lot of criticism, especially in the course of the Parliamentary and Presidential election campaign when corruption was one of the major issues discussed.

The most notable change in corruption-related attitudes is an increase of opti-

mism. The values of the "corruption expectations" index were fairly stable over the period June 1998 - January 2001; in October 2001, however, a notable positive change was observed associated with the hope of Bulgarians that the new government will make a difference in curbing corruption.

Corruption Expectations: Bulgaria 1998-2001, Southeast Europe January 2001 (general public; %)



Source: CMS of Coalition 2000; SELDI

Legend: AL - Albania; BA - Bosnia and Herzegovina; BG - Bulgaria; MK - Macedonia; RO - Romania; HR - Croatia; SERB - Serbia; MNTR - Montenegro.

2. Regional Corruption Monitoring System

The Southeast European Legal Development Initiative (SELDI) was launched in late 1998 as an effort of leading not-for-profit organizations toward establishing public-private partnership for legal development in the transition countries of Southeast Europe. A network of organizations was created within SELDI to monitor the level and scope of corruption in the region on the basis of the *Coalition 2000* monitoring methodology. Special surveys were conducted in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Yugoslavia; in year 2001 the project partners produced a Corruption Monitoring Report for the region.

The main goal of this project in the seven countries of the region is to explore the public attitudes and victimization levels related to corruption. The surveys showed that corruption is a

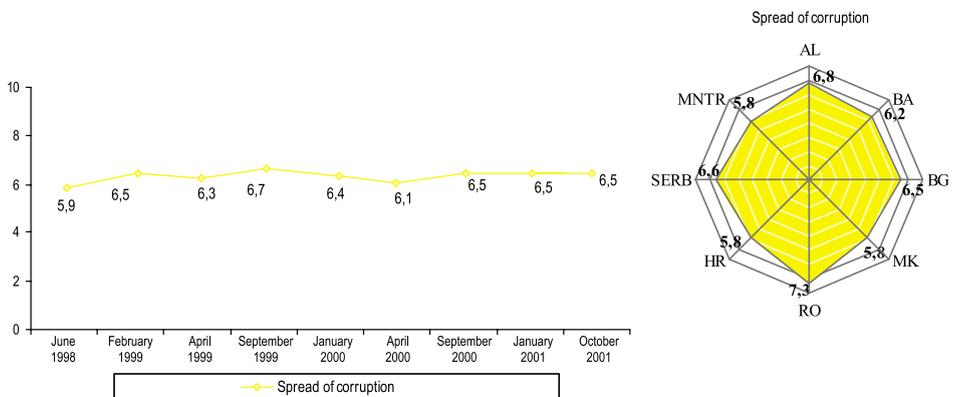
serious problem for all SEE countries: it stands high on the agenda of public priorities; victimization levels are relatively high and the public perceives corrupt practices as endemic to the work of the government administration.

The index of the “spread of corruption” is based on general public assessments of the level of involvement of public sector employees in corrupt practices. Although certain differences between the countries involved exist, the values of the index are fairly high for all countries in general. To the greatest extent this applies to Romania; a little less to Albania, Serbia, Bulgaria, Bosnia and Herzegovina. Although a little lower, the values registered in Macedonia, Croatia, Montenegro also confirm this observation.

III. IT Projects

IT penetration and information society development in Bulgaria have gradually evolved as priority areas for Vitosha

Spread of Corruption: Bulgaria 1998-2001, Southeast Europe January 2001 (general public; %)



Source: CMS of Coalition 2000; SELDI

Legend: AL - Albania; BA - Bosnia and Herzegovina; BG - Bulgaria; MK - Macedonia; RO - Romania; HR - Croatia; SERB - Serbia; MNTR - Montenegro.

Research. In this respect the projects conducted for the World Bank, BMRB International and the Ministry of Transport and Communications have made it possible to collect valuable baseline data and produce initial analyses of the status of the IT sector in Bulgaria.

1. Assessment of the Development of Information Technology in Bulgaria

The main goal of this project was to assess the current state of the infrastructure and services in the field of information technology in Bulgaria. A specific assessment model was developed for the project to interpret the "e-readiness" - not only by the extent to which Bulgarian society and its economy are ready to benefit from information technology and electronic commerce, but also by identification of the current level of ICT usage and the governmental policies and initiatives for stimulating this sector. The model focuses on basic infrastructure for ICT growth and on the capacity of the society in general to benefit from a wider diffusion of this technology. This is a comprehensive research tool as it combines "e-economy" metrics with "e-society" indicators. The model uses a combination of quantitative and qualitative measurement instruments:

1. National sample survey of the population aged 18 and over;
2. Qualitative study and statistical analysis;
3. Focus group discussions with end users (of Internet services), representatives of computer companies, Internet providers, NGOs and public institutions working on ICT-related projects;
4. Desk research.

The main conclusions from the project are that ICT is developing at a relatively high pace (given the status of the Bulgarian economy as a whole). This development, however, is facing a lot of hurdles because of the contending interests of the

main stakeholders. State institutions have started responding to the emerging challenges and serious government investment is under consideration now.

2. Analysis and Development of the Technologies and Services of the Information Society in Bulgaria in the Period 2000 - 2001

For a second time Vitosha Research conducted in 2001 a survey on the development of the information society in Bulgaria, financed by the Ministry of Transport and Communications. The goal of this project was to collect, process and analyze information about the current state and trends in information society technologies and services in Bulgaria for the period 2000 - 2001.

The results of the surveys can be summarized as follows:

1. The total number of people those using the resources of the Internet is still quite small. The share of those using the Internet barely reaches 10.4% of the population. Nevertheless, if the present tendency continues this number should increase substantially over the next a few years;
2. The Internet is typically used at the office and at specialized venues. Home Internet users and those accessing the Web at educational establishments are much fewer;
3. Internet use is a priority mainly among young people. Half of those having access to a computer and the Internet are aged between 18 and 30;
4. The large part of the people having access to the Web are concentrated in large cities;
5. The total number of websites of public institutions and organizations shows a remarkable growth. The virtual presence of educational establishments is expanding most rapidly to keep up with the world trends in providing up-to-date online information;

How often do you use the Internet? (%)

	<i>April 2000</i>	<i>September 2000</i>	<i>June 2001</i>	<i>October 2001</i>
Several times a day	0,4	0,9	0,9	1,4
At least once a day	1,0	1,4	2,5	1,8
At least once a week	2,2	1,6	3,2	3,8
At least once a month	0,9	0,8	1,0	1,1
Less often	1,0	2,1	0,7	2,3
Total	5,5	6,8	8,3	10,4
<i>Source: Vitosha Research Quarterly Omnibus (2000 - 2001)</i>				

3. Internet Services in Bulgaria

IT development is being tracked on a regular basis through quarterly VR omnibus surveys. The main objective of IT monitoring is to track the evolution of the information society in the country and to accumulate information about existing trends. The basic subject areas included in the quarterly monitoring are the following: access to computers; access to the Internet; development of Internet services

in Bulgaria; use of mobile phones; use of e-mail, chat and etc. It has been made possible to reach the following conclusions:

1. At present regular Internet users in Bulgaria have at their disposal a wide array of resources available through the worldwide web, including access to all national media as well as a number of local media offering reviews and analyses online;

How often do you use e-mail (%)

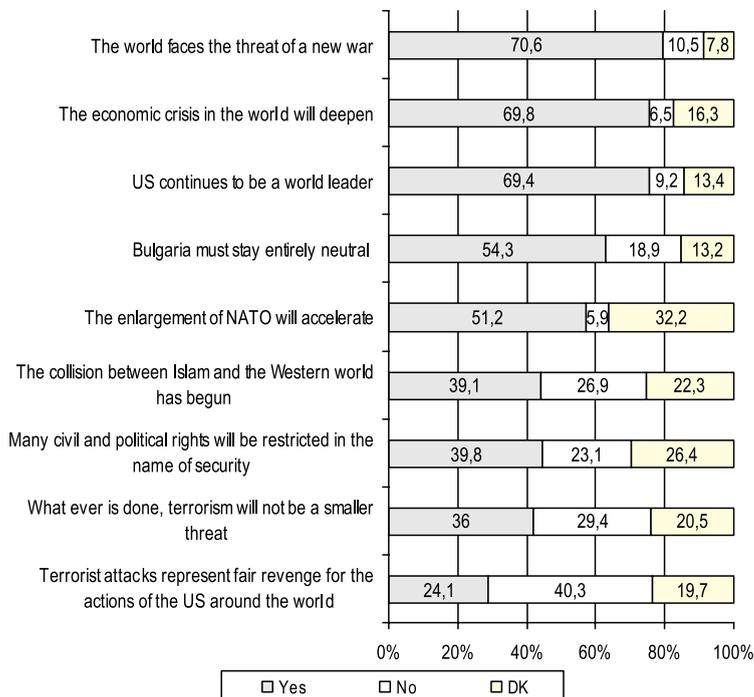
	<i>April 2000</i>	<i>September 2000</i>	<i>June 2001</i>	<i>October 2001</i>
Several times a day	0,7	1,0	0,8	1,0
At least once a day	1,1	1,4	1,3	1,7
At least once a week	2,0	1,8	2,3	3,0
At least once a month	0,3	0,5	1,0	0,7
Less often	1,2	1,3	1,4	2,4
Total	5,3	6,0	6,8	8,8
Base	1161	1158	1066	958
<i>Source: Vitosha Research Quarterly Omnibus (2000 - 2001)</i>				

2. As a whole, there seems to be a relatively high level of user satisfaction in terms of how prices relate to certain minimum requirements for quality services. Yet, the share of those who are disappointed with the quality/price correlation is also considerable;
3. The daily use of the Internet essentially includes visits to Bulgarian portals/search engines as well as entertainment sites;
4. The Internet is typically used as a means of gathering information for personal or professional use /every-day work or leisure/;
5. Bulgarians still do not seem to take advantage of the advanced uses of the Internet such as electronic banking, personal activity planning and organization, etc.

IV. Public Opinion, Media and Market Research

Ten public opinion research projects were implemented in year 2001. The basic topics included in this research were: public opinion about politics and the economy; NATO and the European Union; attitudes toward US policy against terrorism, the sustainable development initiatives in Bulgaria; the health reform in Bulgaria, etc. The projects were commissioned by the Office of Research, US Department of State; Gallup Hungary, the Capacity 21 Program, the Democracy Network Program, the National Health Insurance Fund, Barents Group of KPMG Consulting, and the International Institute for Democracy and Electoral Assistance.

As you think about the terrorist attacks in New York and Washington, do you agree with the following statements?



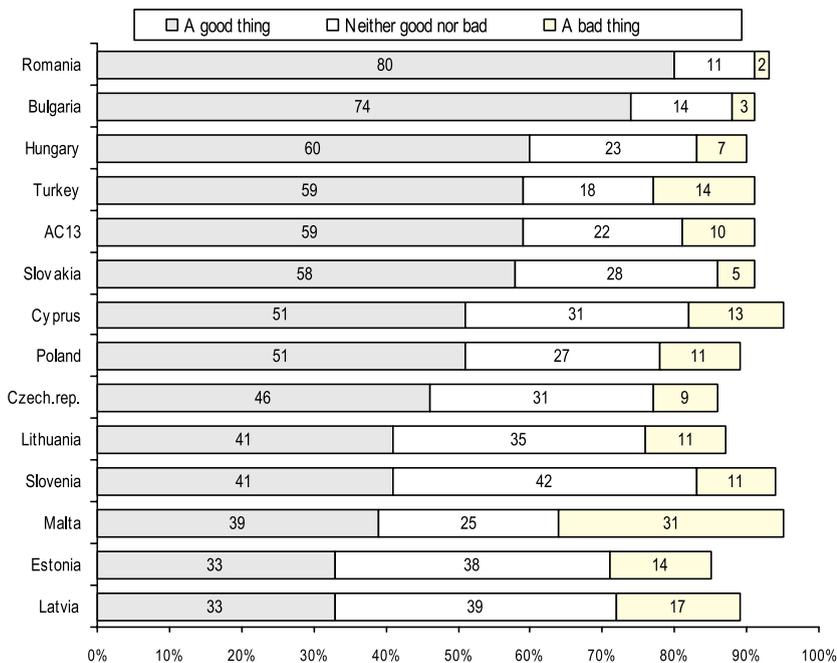
Source: Vitosha Research, October 2001

1. Eurobarometer

Vitoshka Research is part of a consortium of research institutions from Central and Eastern Europe which has been conducting the Eurobarometer survey since January 2000. The project is carried out in thirteen countries applying for EU membership. The main objective of the October 2001 survey was to collect information about public expectations on the living standards, the general attitudes towards the EU as well as to study the public opinion and the assessments of the process of European integration of Bulgaria.

On average, nearly 6 in 10 people (59%) in the accession countries feel that EU membership would be a 'good thing' for their country with support for EU enlargement ranging from 33% in Estonia and Latvia to 80% in Romania. Support levels tend to be significantly higher in the accession countries than they are in the EU where the average support level is 49%.

Support for EU Membership



Source: Accession Countries Eurobarometer 2001, Public Opinion in the Countries Applying for European Union Membership, Result Summary, European Commission
The Eurobarometer Website: http://europa.eu.int/comm/public_opinion

AC13 - Accession countries as a whole

Question: Generally speaking, do you think that (COUNTRY)'s membership of the European Union would be...?

(% "Don't know" and "No answer" not shown)

2. Southeast Europe and Stability Pact: New Means of Regional Analysis

This survey was part of the international project "Southeast Europe and Stability Pact: New Means of Regional Analysis" conducted in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Rumania and Serbia. The project is coordinated by the International Institute for Democracy and Electoral Assistance (IDEA). The survey includes two main components: quantitative and qualitative monitoring of the public agenda as perceived by representatives of different groups. Data on the following issues was obtained:

- Progress of the national and international dialogue on the perspectives for the democratic development of the region;
- Role of the local elite representatives in the process of political decision making;
- Citizens' and elite representatives' views on the main problems of the country and the priorities in the work toward solving them;
- Progress of the democratization in each country.

3. Assessment of Sustainable Development in Bulgaria

The main objective of this assignment was to conduct a comprehensive in-depth analysis of the country's progress toward sustainable development in the context of the *Rio+10* process. The methodology includes quantitative and qualitative surveys aimed at assessing the stakeholders' opinion on the impact of sustainable development initiatives.

The basic target groups of respondents for the qualitative survey were representatives of the government (national,

regional and local), NGOs and private business. The research component of the project included a review of the content and a summary of the findings of the existing recent information sources - publications, research reports and surveys. Desk research on specific laws, policies, strategies, programs and plans concerning sustainable development issues was also carried out.

4. Promoting Philanthropy in Bulgaria: Strategic and Sustainable Partnership with NGOs

This research project was commissioned by the Democracy Network Program and its initial objective was to identify and analyze the successful patterns and mechanisms in philanthropy for the benefit of Bulgarian non-government organizations. The survey included 15 typical cases studies from Bulgaria and showed that philanthropic activities since 1997-1998 have decreased. Both the number of donations and the amounts donated have grown lower. The following reasons for this situation were identified:

1. The existing regulation of philanthropic activities which does not provide adequate financial incentives for donors;
2. There is an evident shortage of philanthropic culture in the country;
3. The NGO sector both lacks sufficient absorption capacity and the potential to apply adequate fund raising techniques.

5. Assessment of the Health Reform in Bulgaria

This project was financed by the National Health Insurance Fund and its main objective of the survey was to explore the opinion of the population on the newly introduced health-insurance system in Bulgaria and formulate policy

recommendations. The project included a national representative survey of the adult population in Bulgaria and an analysis of the current situation in the healthcare system in Bulgaria at the level of popular attitudes, normative assessments and practical experience of the Bulgarian citizens; "the breaking points" between doctors and patients were identified as well as the possibilities for settlement of existing latent conflicts.

6. Perceptions, Inclinations and Expectations Concerning the Health Insurance System and the Voluntary Health Insurance Funds in Bulgaria

Barents Group of KPMG Consulting asked Vitosha Research to explore the advantages and disadvantages of the health insurance system in Bulgaria and to evaluate the structure of social attitudes and the expectations from voluntary health insurance. Data on following issues was collected:

1. Individual attitudes toward the health insurance system in Bulgaria;
2. Degree of match of the attitudes towards the health insurance system in Bulgaria and the existing practices; identification of the major problems in the mechanisms and practices within the existing system;
3. Needs and expectations regarding the health insurance system;
4. General attitude toward the idea of voluntary health insurance;
5. Attitudes toward the various schemes of voluntary health insurance and their prospects as well as evaluation of the different packages of services;
6. Conditions determining the likelihood of purchasing voluntary health insurance and circumstances which could provoke a negative attitude;
7. Motives and preferences in the choice of specific voluntary health insurance funds.

In 2001 media research focused on evaluation of foreign radio station programming. A total of 1 quantitative, 2 radio monitoring projects and 5 assessments of radio advertisements were conducted though face-to-face interviews and desk research. These projects were commissioned by the InterMedia Survey Institute and the Applied Research and Communication Fund. The main objectives of the media surveys were to throw light on the following issues:

1. Assessment and trust in the mass media by the Bulgarian public;
2. Opinions and attitudes about international and domestic TV and radio channels;
3. Role, image and relevance of international and domestic radio broadcasters in Bulgaria;
4. Opinions and attitudes of Bulgarian listeners towards the programs of the RFE, DW, BBC and VOA.

Vitosha Research also conducted 11 quantitative market surveys in 2001. The main topics of the research were:

- Drug advertising;
- Drug market;
- Alcoholic drink consumption and brand tracking;
- Consumption of cappuccino;
- Use of detergents;
- Use and attitudes towards the consumption of goods at OMV petrol-stations;
- Assessment of advertising design.

V. Publications

Research findings have been widely disseminated in the press. More than 10 articles were published in newspapers with national circulation; about 40 analytical reports and policy papers were prepared by Vitosha Research experts. Here is a list of the most important of these reports:

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- 1) Community-Based Philanthropy in Bulgaria: Assessment and Pilot Program Design, January 2001.
 - 2) Problems of the Health Reform in Bulgaria, March 2001.
 - 3) Corruption Indexes, Regional Corruption Monitoring in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia, March 2001.
 - 4) Assessment of the Social and Economic Development of Razlog Municipality - Present State, Problems and Prospects, May 2001.
 - 5) Conditions for Financing Small and Medium-Size Enterprises in Bulgaria, May 2001.
 - 6) Non-Profit Organizations in Bulgaria, June 2001.
 - 7) Sociological and Beneficiary Assessment of Potential Low-Income Housing Micro-Projects, June 2001.
 - 8) Human Security in the Countries of the Caucasus: Armenia, Azerbaijan, and Georgia. A Comparative Study, August 2001.
 - 9) Basic Concepts On the Impact of Restructuring of the Economy upon the Export Activities of Bulgarian companies, July 2001.
 - 10) Perceptions, Inclinations and Expectations Concerning the Health Insurance System and Voluntary Health Insurance Funds in Bulgaria, September 2001.
 - 11) Beneficiary Assessment of the Results of Microprojects Implemented by the Regional Initiatives Fund, September 2001.
 - 12) Corruption Indexes of *Coalition 2000*, November 2001.

European Program

The year 2001 saw two key issues becoming closely related as regards Bulgaria's foreign policy agenda – stabilization and reconstruction in the Balkans and integration into the European Union. Both pose certain challenges for Bulgaria and their combined influence has been compounding the prioritization of the respective domestic reforms.

Recognizing this challenge, CSD's European Program focused on both regional cooperation and European integration as related problematic areas. As in previous years, a blend of networking and policy analysis was employed by the Program.

I. Facilitating Dialogue

On March 5, 2001 the European Program organized jointly with the Embassy of Japan in Bulgaria a breakfast meeting „**The Role of Japan for the Stability in Southeast Europe**“. Guest speaker at the event was Dr. Takahiro Shinyo, Deputy Director-General of the European Affairs Bureau at the Ministry of Foreign Affairs of Japan. The event was attended by representatives of Bulgarian official institutions, of the business community and the diplomatic corps in Sofia, of international organizations, as well as scholars, journalists and NGO representatives.

Dr. Shinyo outlined the substantial contribution of Japan to the Stability Pact for South-East Europe. The speaker presented in brief the Official Development Assistance of Japan to all countries in the region and stressed the continuous commitment of his country to further contribute to the international efforts for the reconstruction and development of SEE as the best guarantee for stability in this part of Europe.

On March 30, 2001 the European Program organized jointly with the Embassy of Japan in Bulgaria a breakfast meeting „Japan's Strategy towards the European Union and its Enlargement“. Guest speaker at the event was Ambassador Takayuki Kimura, Head of the Mission of Japan to the European Union. The event was attended by representatives of the Government, the business, political parties, international financial institutions, scholars, journalists and NGO representatives.



Ambassador Kimura (left) and Mr. Boyko Todorov, CSD Program Director

Ambassador Kimura outlined the cooperation between Japan and the European Union in a number of areas and highlighted the priority areas of common interest. Ambassador Kimura presented the three major pillars of cooperation between Japan and the EU: 1) support for peace and stability on the continent; 2) benefiting from development of information technology and globalization and 3) respecting diversity between cultures and nations. Good cooperation has also been developed within the World Trade Organization, and other multilateral fora.

Notably, developments in Southeast Europe and enlargement figure prominently among issues of joint interest. The significance, which Japan attributes to EU enlargement, is warranted primarily by the fact that this process would strengthen the stability in Europe as a whole. Although some Japanese companies face difficulties in export of goods due to the unique policy decision making in EU, Japan will further enhance its contacts with the candidates for accession to the EU as much as they are getting closer to the membership. In addition to the general stabilization impact of enlargement, it would also increase the members of an international community with shared values, which, in turn, would increase the mutually beneficial exchanges.

A 22-member delegation from the Paasikivi Society, a respected foreign policy think tank in Finland, visited the Center for the Study of Democracy on May 9, 2001. A presentation on the activities of *Coalition 2000* and the Southeast European Legal Development Initiative (SELDI) was made for the group of former members of parliament, judges and scientists, interested in the European Union policy and the process of integra-

tion in the East European countries. The Regional Corruption Monitoring System of SELDI and the analysis of the link between corruption and trafficking in Southeast Europe were discussed.

On September 28, 2001 the Center for the Study of Democracy hosted a meeting "**Debate on the Future of Europe after Nice**". At the meeting Prof. Edward Best met with representatives of the Bulgarian public administration. Prof. Best delivered a lecture and introduced the participants to the European institutions and issues related to the EU integration process. Among the issues discussed were the Nice Treaty, the EU Institutional Reform, the Agenda after the Nice Treaty and the fundamental challenges the EU will be facing in the future. One of the leading European experts in the field of EU research, Professor Edward Best is teaching in the European Institute of Public Administration in Maastricht, the Netherlands. The meeting was held within the framework of cooperation between the CSD and the Institute of Public Administration and European Integration and was attended by senior state administration officials, engaged in Bulgaria's EU accession process.



From left to right: Mr. Jan Wahlberg, First Secretary, Finnish Embassy, Mr. Boyko Todorov, CSD Program Director, and Mr. Alexander Stoyanov, CSD Director of Research



Professor Edward Best, European Institute of Public Administration in Maastricht, the Netherlands

II. Policy Studies

CSD was one of the active participants in the network on European integration (www.europeanintegration.net) organized by the Bertelsmann Foundation and the World Bank with the goal of actively involving public policy institutes and research centers in the preparation of Central and East European countries for accession to the EU. In 2001 the network's activities focused on analysis of the challenges which both the accession countries and the current member states will face as a result of the enlargement as well as recommendations for policy changes which will help tackle the obstacles on the way to a unified Europe.

The European Program, in collaboration with the Economic Program experts, took part in the network workshop "**National versus European Identities in the EU Enlargement: Views from Central and Eastern Europe**", organized together with the Institute of International Relations, Prague and held on December 6-8, 2000 in Caste Stirin, the Czech Republic. The conference „European Integration: Economic and Security Implications for Central and Eastern Europe“ was held in Vilnius on May 20-22, 2001 co-organized with the Lithuanian Free Market Institute, the Institute of International Relations and Political Science of Vilnius University and the Swedish embassy in Vilnius. CSD facilitated the involvement of Mr. Slavcho Neikov, member of the State Energy Regulation Commission and Ms. Zhivka Staneva, advisor at the Council of Ministers who addressed the participants in the event with presentations respectively on the impact of the single market membership on energy policy and the impact of single market membership on the external economic relations of acceding countries. The conference entitled "**Labor, Employment and**

Social Policies in the EU Enlargement Process: Changing Perspectives and Policy Options", co-organized with the European Forum, Alpbach, the Institute for Public Affairs and the Bruno Kreisky Forum for International Development, Vienna took place on June 28-30, 2001 in Baden, Austria addressing the concerns of current member states with regard to the adverse consequences which the EU enlargement may have in the social sphere. CSD was instrumental in the participation of Mr. Andrei Lalov of the National Employment Agency, Mr. Todor Krastev of the Ministry of Labor and Social Policy and Ms. Elena Iankova of Cornell University who were the Bulgarian experts at the discussions.

CSD was one of the members which not only participated in the thematic conferences and workshops but also helped build the institutional capacity of the network. At the two network meetings in 2001 experts of the Center contributed on such issues as dissemination of publications and materials, use of the internet for greater impact, sub-regional cooperation between individual network members and thematic priorities for the future. In 2002, CSD will be working on the organization of a round table on the scope and size of the informal economy in the EU accession countries to be held in Sofia in 2002 and include not only representatives from network member institutions but also leading experts from EU members states.

For a third year now, the CSD has been the Executive Secretariat of the Southeast European Legal Development Initiative (SELDI). In this capacity, in 2001 CSD was the main implementation agency for the anti-corruption component of SELDI, carried out under the title *Coalition Building and Monitoring for Anti-Corruption in Southeast Europe*. The overall objective of the SELDI anti-cor-

ruption project is to introduce a region-wide institutional framework for public-private cooperation in countering corruption in the countries of Southeast Europe. The main premise of the project approach is that the institutionalization of corruption in the SEE countries cannot be explained by national circumstances alone.

This bold initiative deserves the broad support from all of us who seek to bring the countries and societies of Southeastern Europe into Euro and Euro-Atlantic institutions at the earliest possible date.

Ambassador Donald Kursh,
Principal Deputy Special
Coordinator, Stability Pact for
Southeast Europe at the interna-
tional conference *Beyond Anti-
Corruption Rhetoric: Coalition
Building and Monitoring Impact*,
held in March 2001 in Sofia

The results of the first phase of the project, which was completed in 2001 include three unique outputs:

1. The introduction of a **Regional Corruption Monitoring System (RCMS) in Southeast Europe** – the first ever **region-wide corruption diagnostics** were carried out in Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia on the basis of a uniform methodology.

The RCMS has several specific characteristics that make it unique. First, because the RCMS is producing new information; second, because it is based on a uniform methodology that ensures comparability of results between countries and over time; third, because it is based on the experience of citizens from each country with corruption which

gives the opportunity to explore the “insider” view on corrupt practices.

The main goal of the comparative analysis contained in the Regional Corruption Monitoring Report is to show the public significance of the problem of corruption and the extent to which corruption has penetrated into the various sections of these societies. The RCMS is a unique effort which has not been undertaken in the region before as it measures both public attitudes as well as the actual spread of corruption in the countries. It allows a comparison of the public sectors most affected by corruption thus providing objective data for the design of regional anti-corruption policy instruments. Bulgarian and international media covered the first publication of the Regional Corruption Monitoring Report.

2. **Training for watchdog capacity** for a critical number of civil society organizations in SEE.

The project has the combined objective of enhancing public and private coalition-building in the SEE countries and develop a regional anti-corruption watchdog and diagnostic facility. To this end, a number of non-governmental organizations were trained in phase one in the application of the RCMS for the purpose of watchdog as well as an instrument for reform pressure. This has created a precondition for the backbone of a watchdog network in the region and will be complemented in phase two with training on assessing the institutional aspects of corruption.

3. Initial information gathering for the purpose of an **assessment of the institutional environment** as regards public administration, the judiciary, economy, civil society and media and international cooperation against corruption in all seven target countries.

A *background document* on corruption, containing an overview and initial outline of the main corruption problems and risks in the seven target countries was developed by SEE experts. Unlike other corruption assessment efforts in the region, which evaluate individual countries, the document summarizes corruption-related information along several key institutional and legal structures. The emerging picture indicates predictably similar problems facing a number of public agencies, notably law enforcement and the judiciary. Thus the background document is the first truly regional look at corruption in SEE.

The background document on corruption in SEE will be the essential resource reference for the experts working on the Regional Corruption Monitoring Report in phase two which is to be implemented in 2002.

A particular attention was devoted in 2001 to the institution building of the Initiative. Among these efforts, increasing the role of the International Steering Board of SELDI, consisting of prominent public figures and NGO leaders from the SELDI countries and EU member states and the US and representatives of international organizations, which is responsible for establishing SELDI's strategy and activities, was emphasized. Ambassador Anders Thunborg, former Minister of Defense of Sweden, visited Bulgaria from October 13 to 19, 2001 by invitation of the Center for the Study of Democracy, as a member to the International Steering Board of the Southeast European Legal Development Initiative.

The agenda of Ambassador Thunborg's visit included meetings with senior government officials, political leaders, and diplomats. During his stay Ambassador Thunborg delivered a lecture on the Role of NATO and the situation in the Balkans.



*Ambassador Anders Thunborg, SELDI
International Steering Board Member*

Information Centre on the Council of Europe in Sofia

The Center for the Study of Democracy has been hosting the Information Centre on the Council of Europe in Sofia since 1993. The Information Centre provides the Bulgarian public and institutions with information on the activities and supports Council activities in priority areas. Below are some of the highlights for the year 2001. Additional information is available at www.cid.bg

Releases in 2001

Translations

- Gender mainstreaming. Conceptual framework, methodology and presentation of good practices & Going for gender balance. A guide for balancing decision-making
- Handbook on National machinery to promote gender equality and action plans. Guidelines for establishing and implementing National machinery to promote equality, with examples of good practice.
- Going For Gender Balance A Guide For Balancing Decision-Making
- The Council of Europe, 800 million Europeans

Publications

- European Convention on Human Rights: Starting points for Teachers (in Bulgarian)
- Gender mainstreaming. Conceptual framework, methodology and presentation of good practices & Going for gender balance. A guide for balancing decision-making (in Bulgarian)
- Case-law Digest of the European Court of Human Rights (in Bulgarian)

European Social Charter

For several years now the Information Center on the Council of Europe in Sofia has been involved in the mechanism for ratification of the European Social Charter by Bulgaria. The national mechanism is a consultation network of government, non-governmental and professional organizations who are stakeholders in the process of ratification. The mechanism is an example of best practice in establishing public-private partnerships in key areas of reform in a country in transition. The national mechanism is coordinated by the Ministry of Labor and Social Policy and

includes representatives of all major trade unions, associations of disabled people, trade and business associations, the National Social Security Institute, etc. The Information Centre has been providing informational and logistical support for the network.

In November, the Information Centre hosted a consultation meeting of Council of Europe experts providing technical assistance for the development of the Bulgarian national report on the ratification of the Social Charter.

An important occasion in 2001 for the national mechanism was the marking of the 40th anniversary of the launching of the European Social Charter. On October 18, 1961 the Committee of Ministers of the Council of Ministers opened the Charter for signature, inviting the member states to adhere to this major treaty, guaranteeing social and economic rights and hence serving as a genuine counterpart to the European Convention on Human Rights which, for its part, guarantees civil and political rights. On this occasion, on October 18 the Information Center hosted an official celebration meeting at its premises. The celebration was an important acknowledgment of the significance which Bulgaria's government and civil society attribute to the cooperation within the framework of the Charter. Ms. Lydia Shouleva, Deputy Prime Minister and Labor and Social Policy Minister, Ms. Elena Poptodorova, Director of Human Rights Department in Foreign Affairs Ministry, members of the Bulgarian Ratification Committee, the

Director of National Employment Office Mr. Oleg Choulev, and the leaders of two of the largest trade unions Mr. Zhelyazko Hristov, Mr. Konstantin Trenchev were among the guests of the evening.

South East Europe Strategic Review On Social Cohesion

On October 24-26, the Information Centre hosted the first meeting of the Employment Network set up by the Council of Europe for the purpose of the South East Europe Strategic Review On Social Cohesion. The review process was launched in May 2001 and the Information Centre was the first to host a meeting of the network.

Ms Liliana Stankova, Head of Migration and European Integration Section at the Bulgarian National Employment Service was elected Chairperson of the meeting. On behalf of Bulgaria, she welcomed the participants. Mr. Boyko Todorov, Director of the Documentation



Deputy Prime Minister Lydia Shouleva addressing the 40th anniversary European Social Charter celebration meeting

Centre of the Council of Europe in Sofia was introduced and thanked for his assistance in organizing the event.

Mr. Stefano Dominiononi of the Council of Europe Secretariat outlined the South East Europe Strategic Review on Social Cohesion in its various components - Employment, Health, Housing and Social Protection - and put the work of the Council of Europe in the framework of the Stability Pact for South East Europe. The themes discussed throughout the three-day meeting included the transformation of the labor market; identifying vulnerable groups and their needs and policy responses to improve access to employment.

Several working groups discussed the transformations of the labor market with a particular focus on the following subject areas: main trends regarding employment and unemployment, long term unemployment, migration patterns, refugees, labor market segmentation, the "shadow economy", as well as the definition of vulnerable groups, identification of the processes excluding people from

the labor market, social and economic deprivation linked to that exclusion, main priorities in terms of (re)insertion of vulnerable groups into the labor market, and assessment of the needs to that purpose.

Case law digest of the European Court of Human Rights

In 2001, the Information Centre published a book containing a digest of the Bulgarian translations of some 42 cases from the case law of the European Court of Human Rights. The book was edited by a team of eminent Bulgarian lawyers led by Justice Dimitar Gochev, Constitutional Court Judge and former Judge at the European Court of Human Rights in Strasbourg. The purpose of the of the publication is to make accessible to the Bulgarian legal community some of the key judgments of the Court on some of the key articles of the European Convention on Human Right – such as articles 3, 5, 6, 8. The book contains some of the landmark cases in these areas as well as the first case brought against Bulgaria in the Court.



From left to right: Ms Liliana Stankova, Head of Migration and European Integration Section at the Bulgarian National Employment Service, and Mr. Stefano Dominiononi and Mr. Frederick Lapeyre, Social Cohesion Development Division at the Council of Europe



Beyond Anticorruption Rhetoric: Coalition Building and Monitoring

The CSD has been the Secretariat of *Coalition 2000* since its launch in 1998. In 2001 *Coalition 2000* continued its efforts to be an initiator of comprehensive anti-corruption activities in Bulgaria. It extends the scope of the public-private partnership, acts as a coordinator of various local projects and organizes high-profile meetings and conferences.

1. A Public-Private Partnership

For a fourth consecutive year *Coalition 2000* has worked towards public-private partnership in counteracting corruption.

The most effective area for building such partnerships are the policy aspects of anti-corruption. From this perspective, in 2001 a landmark of the cooperation with government and other non-governmental institutions - both at expert and policy level - was the development of the annual **Corruption Assessment Report 2001 (CAR)**.

At the end of 2001 the general political environment for fighting corruption can be assessed as promising: obviously, each change at the pinnacle of power creates opportunities for public-private partnership in this respect, especially at the initial stage of consolidation of public support for the new incumbents in office.

Corruption Assessment Report
2001, p.7

The CAR is intended to assess the progress achieved along the recommendation lines of the Action Plan and to

recommend short term actions. It presents a general evaluation of the state and dynamic of corruption in Bulgarian society and the efforts to counteract corruption. The CAR analyzes the changes which have occurred in various public spheres and which have brought – or might bring about - changes in corruption dynamics. The evaluation criteria take into account reputable international analyses and domestic indexes about the spread and the frequency of different forms of corrupt behavior.

The 2001 CAR focused on the following issues:

- Identify factors that contribute to the growth of corrupt practices and assess economic costs of corruption;
- Account for public perception of corrupt practices and acceptance of corruption by the public;
- Identify factors that currently constrain the combat of corruption in Bulgaria;
- Evaluate measures aimed at developing the legal and institutional anti-corruption infrastructure.

The Report was produced through a several step process which ensures both consensus building and comprehensiveness: drafting a preliminary analysis paper; ensuring the input of the experts of the stakeholder institutions; developing the text of the annual CAR to be presented at the annual *Coalition 2000* Policy Forum.

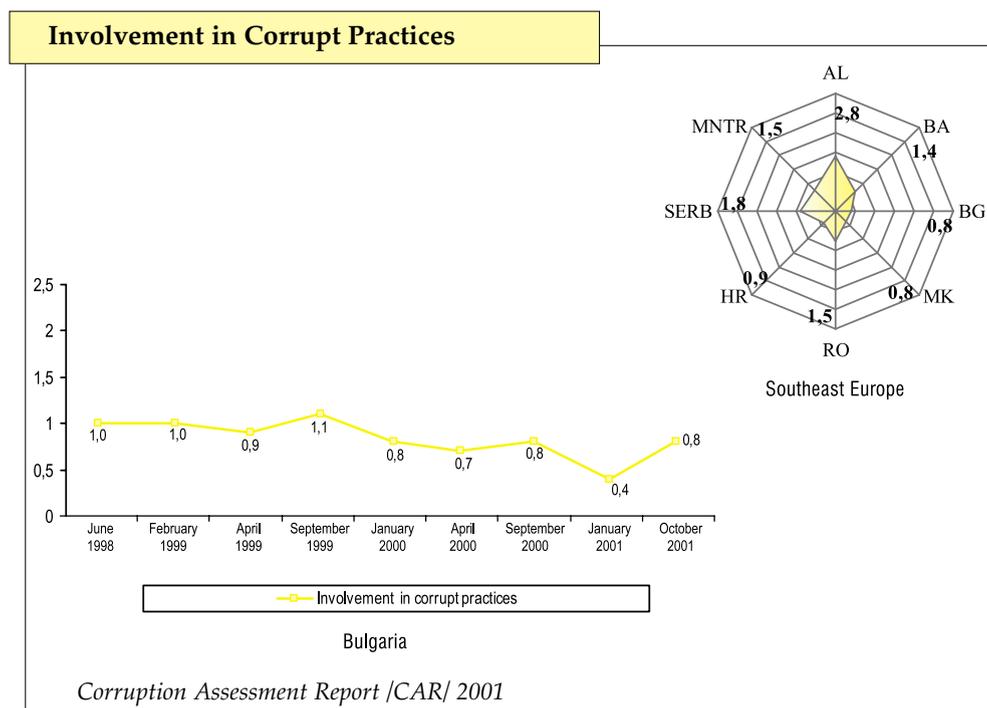
The initial task of experts, as an already established mechanism within the framework of the *Coalition2000* process, was to draft a preliminary paper covering the institutional and legal environ-

ment for curbing corruption, reform of the judicial system, corruption in the economy, media and civil society, dynamics of corrupt behavior and public attitudes and international anti-corruption cooperation.

The preliminary analysis paper was circulated among all concerned institutions - governmental, non-governmental and international - in order to solicit their comments and additions. These included suggestions as to possible additional action lines, and clarification of certain recommendations and definitions.

Another significant step for the development of the public-private partnership was the invitation of *Coalition 2000*'s experts to participate in the elaboration of a **National Strategy for Counteracting Corruption** adopted by

the new government that came to power in June 2001. The National Strategy, adopted in October, contains a chapter, dealing especially with anti-corruption partnership between state institutions, NGOs and the media. It reflects many of the measures proposed by the *Coalition 2000* Action Plan of 1998 and of the Program for Judicial Reform, which was developed within the framework of the Judicial Reform Initiative. The cooperation between *Coalition 2000* and the government in the development of the Strategy exemplifies the importance of public-private partnerships from the point of sustainability of anti-corruption reforms – the anti-corruption capacity established within the Coalition as a result of a number of civic initiatives was instrumental for the development of public policy measures at a crucial time of Bulgaria's reforms.



The *Coalition 2000* input into the policy making process was not limited to the development of the CAR and the National Strategy, and included efforts in the fields of public procurement and corporate governance. On October 31, a discussion was organized by the Public Procurement Directorate of the Council of Ministers on the **amendments of the Law on Public Procurement**, which were to be submitted in the Bulgarian Parliament by the Council of Ministers. Representatives of *Coalition 2000* and the Secretariat at CSD made a contribution to the discussions.

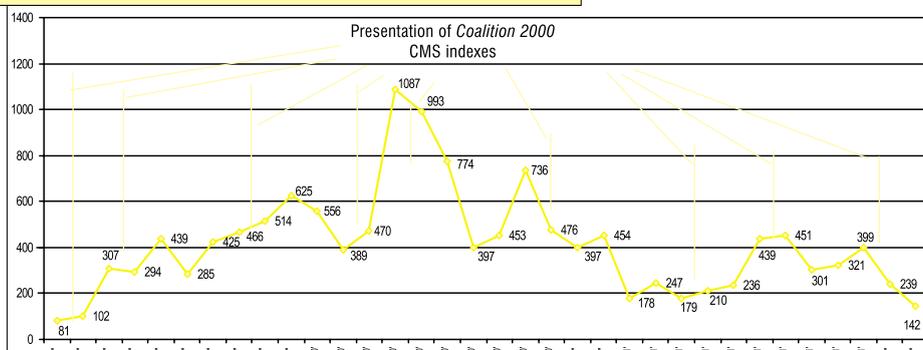
At the same time, civil society organizations within the Coalition continued to be very active in their watchdog capacity. A **Civic Council to monitor transparency in financing the 2001 presidential election campaign** was established by representatives of three independent civil organizations - *Coalition 2000*, the Transparency International Bulgarian Chapter and Civil Society Against Corruption. The major objective of the Civic Council was the implementation of an independent ongoing and subsequent civil control on fund-raising

and fund expending during the presidential election campaign. The Civil Council was invited by the Committee nominating Mr. Petar Stoyanov and Judge Nelly Koutzkova for President and Vice-President of the Republic to carry out the monitoring. The members of the civic council had access to the banking documents as well as to the financial and accounting reports on the funding. The results of the monitoring were presented at a press conference.

2. A Watchdog and Public Awareness Tool

The local anticorruption initiatives of *Coalition 2000*, such as seminars, round tables, public discussions and lectures, intended to popularize the concept of civic control and monitoring of local government. In this respect, the *Coalition* jointly with the Association of Municipalities „Hebar“ organized seminars on **„Corruption and Local Authorities“** in Plovdiv and Pazardjic with the mayors and other municipal representatives. Lectures on the issues of corruption and anticorruption organized at the University of Shoumen and

Monthly Number of Articles



Source: CMS – media monitoring

* Media monitored: "24-chasa", "Trud", "Sega", "Standard", "Pari", "Novinar", "Monitor", "Demokratzia", "Duma", "Kapital", "168-chasa" and "Banker".

CAR 2001

the presentation of the Civic Association „Ombudsman“ in Stara Zagora were some of the other activities, carried out by *Coalition 2000*. Anticorruption publications of *Coalition 2000* were presented during the „Week of the Municipality“ in the town of Rakovski, Plovdiv district. The New Bulgarian University hosted a Round Table „Corruption and Success of the Transition“, jointly organized by the Political Science Department and *Coalition 2000*.

The greatest awareness-raising effect was unquestionably produced by the regularly published **Corruption Monitoring Indexes** of *Coalition 2000*. As the main product of the **Corruption Monitoring System** (CMS) developed and implemented by *Vitosha Research*, they have become an effective instrument for the analysis of corrupt practices in this country and the assessment of the progress made by the anti-corruption initiatives.

3. International Cooperation

In February *Coalition 2000* hosted one week anti-corruption study tour for officials of the Government of **Armenia**, members of the National Assembly and key NGOs working in the field of civil society and the rule of law. The working group has just completed drafting a

National Anti-Corruption Strategy. They started the process of developing a Strategy during a study tour to Bulgaria hosted by the Secretariat of *Coalition 2000*, the Center for the Study of Democracy (Sofia). The study tour was aimed at launching a **national anti-corruption program for Armenia** by sharing *Coalition 2000's* accomplishments in coalition building, public-private partnership and regional anticorruption cooperation.

The major international event of the Coalition for 2001, the **International Conference „Beyond Anti-Corruption Rhetoric: Coalition Building and Monitoring Impact,“** was held on March 23-24, 2001 in Sofia. Approximately 100 representatives of non-governmental organizations and public officials from the countries of Southeast Europe as well as representatives of bilateral aid agencies and international organizations, such as USAID, OECD, the World Bank, the European Union, UNDP, the Stability Pact for Southeast Europe took part in the conference. Among the participants were also representatives of state institutions and non-governmental organizations from the Russian Federation, leaders of Bulgarian political parties and Members of Parliament, the Ambassadors of the USA, UK, Germany, Sweden, and members of foreign embassies and missions in Sofia.



Ambassador Donald Kursh, Principal Deputy Special Coordinator, Stability Pact for Southeast Europe spoke at the Conference

The purpose of this third international conference was to review the experiences gained by the Coalition in establishing public-private partnerships, to assess the results and impact from implementing this anti-corruption instrument, and to encourage further cooperation among governmental and non-governmental organizations, especially in Southeastern Europe, within the existing bilateral and multilateral instruments against corruption and organized crime, as a security building measure for the region in the framework of the Stability Pact.

Corruption and trans-border crime, fighting organized crime and the link between corruption and trafficking were other issues brought to the discussion. Among the themes explored were trafficking in goods, people, drugs and arms, money laundering, and organized crime's impact on the individual, society, economic development, and security and the democratization process in the region. The tools developed in the countries of Southeast Europe and the international instruments to which the countries present have signed up to were also discussed.

In 2001, the Coalition laid the groundwork for a long term cooperation with the **George Marshall European Center for Security Studies**. In May a conference entitled „**Corruption within the Security Forces: A Threat to National Security**“ was organized by George Marshall Center, the US Federal Bureau of Investigation and the German Bundeskriminalamt in Garmisch-Partenkirchen, Germany. Its purpose was to provide a forum for senior governmental officials, parliamentarians, academics, and heads of non-governmental organizations to exchange information and views on aspects of organized crime that pose a potential threat to the national security and regional stability. The conference focused on corruption of governmental officials and

processes within security forces: law enforcement, customs and border control, and military services. This conference was the second in a series of conferences hosted by the Marshall Center, the FBI, and the BKA to examine the threat that organized crime poses to national security and regional stability.

The second **Partners in Transition Conference** sponsored by the U.S. Agency for International Development (USAID) was held in Sofia September 10-11. Mr. Petar Stoyanov, President of the Republic of Bulgaria, served as the host of the conference. The Second Partners in Transition Conference allowed the participants to discuss both formally and informally, difficulties they have encountered along the road to building a democratic society and establishing a market-oriented economy. The theme, „Challenges of Transition,“ refers to some of the primary obstacles to realizing a successful transition to a democratic society and market-oriented economy.

The Bulgarian report was developed by a working group of representatives of government agencies, the judiciary and legislature, businesses association, media and NGOs with the active participation of Coalition 2000. It was presented at the conference by the representative of *Coalition 2000*, Mr. Boyko Todorov, Program Director of CSD and widely reported in the Bulgarian media.

The British Embassy to Bulgaria and Coalition 2000 jointly organized on September 19, 2001 a discussion on **the role of the UK Parliamentary Commissioner on Public Standards**. Ms. Elizabeth Filkin, the UK Parliamentary Commissioner, delivered a lecture on „How the United Kingdom's Parliament Tries to Win Public Respect: The Work of the Parliamentary Commissioner on Public Standards“. The lecture was followed by a lunchtime discussion on the

experience gained by the United Kingdom authorities in this important and challenging area of work with invitees from the politicians, public officials, the Judiciary, NGOs, the diplomats, representatives of international organizations, and journalists.

A round table on „Corruption and Anti-Corruption within Security Forces“ took place at the CSD on November 14. The US Embassy Legal Advisor Ms. Karen Kramer, Ms. Linda M. Topping-Gonzalez, Assistant Inspector-General for Congressional and Media Affairs at the U.S. Department of State, Mr. Michael Berkow, Chief of Police in Irvine and Mr. Stanley A. Boone, Office of the US Attorney, Department of Justice as well as *Coalition 2000* experts participated in the discussion.

On November 14 the Center for the Study of Democracy hosted **„Transparency and Anti-Corruption in Public Administration Activities“** Round Table, jointly organized by the Institute of Public Administration and European Integration (IPAEI) and *Coalition 2000*. Following its target of rendering support to public administration and civil organizations in their strive to develop transparent governance procedures, the Institute contributes to the increase of citizens' trust in

public administration. The Round Table was one of the steps in this respect.

A Policy Briefing *Coalition Building and Monitoring for Anti-corruption* featuring the impact of *Coalition 2000* and the Southeast European Legal Development Initiative (SELDI) was organized by the Heritage Foundation, the Center for International Private Enterprise, and the Center for the Study of Democracy on July 12, 2001. Representatives of the Department of State, Department of Defense, Department of Justice, USAID, Council on Foreign Relations, World Bank, and others attended the briefing, held at the United States Chamber of Commerce in Washington, D.C.

The purpose of the policy briefing was to introduce the US policy and think tank community to the work of the Southeast European Legal Development Initiative (SELDI) to diagnose and advocate for policy reforms. The briefing focused on the impact of the shadow economy and illegal trafficking in goods on governance structures in the region and public-private models for cooperation. Comparative corruption diagnostics for Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Yugoslavia were presented.



Ms. Gabriela Bakalova, Secretary General of IPAEI and Mr. Boyko Todorov at the round table

Bulgaria has led an anti-corruption initiative and this should provide a positive model for neighboring countries which face even stiffer challenges in combating corruption and stimulating economic growth.

Dr. Kim Holmes, Vice President,
The Heritage Foundation,
at the policy briefing

Stability and economic growth are dependent on forging strong coalitions to create standards of integrity, expose corruption, and advocate reforms. The mission of SELDI is to encourage such coalitions in the private and public sectors throughout the Balkan region. It is based on the *Coalition 2000* experience which demonstrates that a determined citizenry can demand better government and turn the tables on the corrupt.



From right to left: Dr. John Sullivan Executive Director, Center for International Private Enterprise; Dr. Kim Holmes, Vice President, The Heritage Foundation; Dr. Ognian Shentov, President, CSD; Mr. Boyko Todorov, CSD Program Director; Mr. Alexander Stoyanov, CSD Director of Research

Part Two

Administration and Management

Administration and Management

CSD's approach to its administrative procedures has always been based on the understanding of the significance of sound management for the delivery of its contribution in the reform process in Bulgaria. The enhancement of the institutional capacity of the Center is based on the continuous blending of professionalism in both policy analysis and internal financial management and administration.

In the past year, CSD has been increasingly implementing complex projects requiring the involvement of staff from its various programs. This necessitated a special efforts to improve inter-program coordination. More and more integrated projects also make team building policies a must. These include coordination meetings under various formats which are an integral part of the management process.

A long established emphasis of CSD's administrative procedures is the development of an effective system for self regulation. In addition to the requirements of the regulatory framework for non-profit organizations in Bulgaria, CSD is establishing and applying its own internal rules designed to introduce best international practices in NGO governance. These cover administrative and financial management, recruitment, accounting policies, etc. Rules and regulations are updated annually reflecting both changes in domestic legislation in Bulgaria and new international models.

In 2001, the Center for the Study of Democracy was among the few non-profit organizations in Bulgaria to re-register under the new NGO legislation

as a public benefit organization. CSD was one of the leading organizations which promoted the distinction between public benefit and private benefit in the legislation, which entered into force in the beginning of 2001. For the public benefit organizations, the new law makes a number of provisions for avoiding conflict of interest, independent external control of the use of funds, stricter reporting rules, etc. Regardless of the fact that the Center has been applying these or similar procedures and undergoing independent external audit since 1993, special training was organized for the CSD management on the new requirements of the law.

CSD has been implementing best international practices in accountability and transparency in the receipt and use of funds for almost 10 years now. The financial report for the preceding year - for 2001 audited by KPMG (their independent opinion and CSD's financial statements follow) - is an integral part of CSD's annual report. The Center works with a significant number of development agencies and donors and it is crucial that maximum financial transparency is ensured. "Behind the scenes" of this effort is a very professional administration which has established a well functioning coordination with the project managers at CSD to produce complete, accurate and timely reports for the various projects.

Investing time, effort and funds into maintaining good management practices is important not only for CSD's own activities. The Center has long been active in transferring this expertise to other Bulgarian NGOs. In 2001, CSD's Financial Manager was the lead consult-

ant for the design and implementation of a series of seminars for NGO managers on how to reach pre-audit level under the international accounting standards. The seminar training materials were later published and made available to the Bulgarian NGO sector.

CSD was also instrumental in the development of the volume *Project Management Steps*. It covers general issues related to project management, allocation of resources, financial aspects and control of spending, reporting, and monitoring and evaluation. A special section provides practical examples.

The Center is among the leading organizations involved in the improvement of the regulatory environment for NGOs in Bulgaria. It provided expertise in the development of the central registry for public benefit NGOs and designed the terms of reference for the electronic version of the registry. CSD was also part of the working group which develop the changes to the tax laws regulating the non-profit sector, adopted in December 2001.

In 2001, CSD employed 52 staff of which 37 were professional and management, including part-time consultants, and 15 were support personnel. The Center also works with a significant number of external contributors.

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United Nations Development Programme
United States Agency for International Development
U.S. Department of State, Office of Research
Urban Institute

Part Three

Financial Review



Center for the Study of Democracy
Organization's Financial Statements
For the period ended 31 December 2001
With Independent Auditors' Report Thereon



Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended 31 December 2001

<i>In BGN</i>	Note	2001	2000
Revenue from grants, contributions and projects	2	1,894,707	3,098,340
Expenses on grants, contributions and projects	3	(1,520,860)	(2,367,839)
General and administrative expenses		<u>(109,072)</u>	<u>(91,122)</u>
Gross excess of revenue over expenditure		264,775	639,379
Foreign exchange gains/(loss) - net	4	6,335	162,879
Interest income		47,099	44,139
Other financial expenses		(7,036)	(6,862)
Other income		7,542	7,430
Impairment losses	5	<u>(19,611)</u>	<u>11,306</u>
Excess of revenue over expenditure for the year		299,104	858,271
Accumulated excess of revenue over expenditure brought forward		2,677,174	1,818,903
Unrestricted fund balances at 31 December 2001		<u><u>2,976,278</u></u>	<u><u>2,677,174</u></u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Unrestricted fund balance

As at 31 December 2001

<i>In BGN</i>	2001	2000
Balance at 1 January 2001	2,677,174	1,818,903
Revaluation for the period	-	-
Excess of revenue over expenditure for the year	<u>299,104</u>	<u>858,271</u>
Balance at 31 December 2001	<u><u>2,976,278</u></u>	<u><u>2,677,174</u></u>

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Balance Sheet
As at 31 December 2001

<i>In BGN</i>	Note	2001	2000
Property, plant and equipment	6	727,963	623,982
Intangible fixed assets	7	9,061	11,686
Investments	8	10,006	10,006
Total non-current assets		747,030	645,674
Inventories		135	129
Receivables	9	55,029	613,322
Cash and cash equivalents	10	2,386,608	1,544,861
Deferred expenses	11	41,733	226,235
Total current assets		2,483,505	2,384,547
Total assets		3,230,535	3,030,221
 Liabilities			
Payables	12	54,699	60,667
Deferred revenue	13	199,558	292,380
Total Liabilities		254,257	353,047
Unrestricted fund balance		2,976,278	2,677,174

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.

Ognian Shentov
President

2 April 2002



Statement of cash flows
For the year ended 31 December 2001

<i>In BGN</i>	Note	2001	2000
Operating activities			
Gross excess of revenue over expenditure		299,104	858,271
Adjustments for:			
Depreciation		48,375	25,863
Foreign exchange loss from revaluation assets and liabilities denominated in foreign currency		4,709	9,651
Impairment losses	5	19,611	(11,306)
Cash flow from operating activities before changes in working capital		371,799	882,479
 (Increase)/ decrease in assets from operating activities		 718,763	 103,389
Increase/(decrease) liabilities from operating activities		(99,084)	(910,821)
Cash flows from operating activities		991,478	75,047
Investing activities			
Purchase of tangible fixed assets		(149,731)	(111,190)
Cash flows from investing activities		(149,731)	(111,190)
Net increase in cash and cash equivalents		841,747	(36,143)
Cash and cash equivalents at beginning of year		1,544,861	1,581,004
Cash and cash equivalents at end of year 7		2,386,608	1,544,861

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Notes to the financial statements

I. Significant accounting policies

The Center for the Study of Democracy (CSD) is a non profit organization domiciled in Bulgaria. The financial statements were authorized for issue by the President on 2 April 2002.

(a) Activity background

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 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 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.

CSD encourages an open dialogue between scholars and policy makers and promotes public-private coalition building. As a full-service think tank, the Center achieves its objectives through policy research, process monitoring, drafting of legislation, dissemination and advocacy activities, building partnerships, local and international networks.

(b) Statement of compliance

The financial statements of the Center for the study of democracy (CSD) have been prepared in accordance with the international accounting standards (IAS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB, and the requirements of the Bulgarian law.

(c) Basis of preparation

These financial statements have been drawn up in conformity with International Accounting Standards. The financial statements are presented in BGN. In the last several years the CSD has operated in a hyper-inflationary environment. The officially published by National Institute of Statistics inflation indices for 1996, 1997, 1998, 1999, 2000 and 2001 are 410.8%, 678.6%, 101%, 106.4%, 111.4% and 104.8% respectively.

Hyperinflation adjustments have been made in order to show the effect of inflation on the purchasing power of the equity interest as at 31 December 1998. Due to the insignificant inflation growth in the financial years ended 1999, 2000 and 2001, the Statement of Revenues, Expenditure and Changes in Fund Balances for that years and the Balance Sheet as at 31 December 1999, 31 December 2000 and 31 December 2001 have not been adjusted according the official inflation index.

(d) Foreign currencies

Monetary assets and liabilities in foreign currencies have been revalued on a monthly basis. The resulting translation difference is recognised in Statement of revenues, expenditures and changes in fund balances. The BNB official exchange rates of the USD as at 31 December 1999 is 1.9469 as at 31 December 2000 is 2.1091 BGN/USD and as at 31 December 2001 is 2.21926 BGN/USD and the average exchange rate for the year 2001 is 2.18467 BGN/USD.

(e) Property, plant and equipment

Items of Property, plant and equipment and intangible fixed assets are stated at a cost less accumulated depreciation and are presented at the Balance Sheet applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices (refer to 1.b) have been used. Their cost have been inflated as at 31 December 1998.

Property plant and equipment and intangible fixed assets have not been inflated for the years ended 31 December 1999 and 31 December 2000 and 31 December 2001. The inflation rate for the twelve months ended 31 December 1999, 31 December 2000 and 31 December 2001 of 6.4 %, 11.4% and 4.8% respectively are considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999, 31 December 2000 and 31 December 2001 have been made.



Notes to the financial statements

Inflated values as at 31 December 1998 of property plant and equipment and of intangible fixed assets have been depreciated using the straight line method. The rates of depreciation used are as follows:

Buildings	4%
Machinery and equipment	20%
Fixtures and fittings	25%
Vehicles	20%
Intangible assets	20%

(f) Investments

Investments classified as long-term assets are carried at cost, less any amounts written off to recognise a decline in the value of the investment. The subsidiaries perform economic activity which is different from the activities performed by the CSD. In relation to the stated above, the financial statements of the subsidiaries are not consolidated and the management carries the investments at cost. In the present report there is an information disclosed (refer to note 8) for the activities of these subsidiaries concerning their net assets and financial results.

(g) Receivables

Receivables are stated at their cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

(j) Impairment

The carrying amount of the Center's assets are reviewed at each balance sheet to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. 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.

(k) Payables

Payables are stated at their cost.

(l) Revenue recognition and expense reporting

Revenue is recognized in the income and expenditure account on the basis of completed stage as reported by the CSD to the commissioning bodies. Revenue is recognized 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.

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 installments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency.

Reports are issued as contracted with financing organization. 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 organization. Frequency is determined in the contract for the project assignment.

(m) Taxation

CSD is a non profit organization. No corporate tax is levied in accordance with current Bulgarian legislation. For the period ended 31 December 2001 there are no trade operations on which tax is due. Therefore International Accounting Standard 12 Income Taxes is not applied.



Notes to the financial statements

2. Revenue from grants, contributions and projects

<i>In BGN</i>	2001	2000
IDLI - Coalition 2000	65,594	1,943,758
SELDI phase I	553,454	236,547
SELDI phase II	307,826	-
Council of Europe	113,970	104,475
InfoDev - World Bank	159,677	-
MSI	66,630	-
CIPE 2000	63,046	-
Santander group - Phare Democracy Program	80,986	-
CIPE Mass Media	34,597	-
USAID conference	56,658	-
UNDP training	-	5,388
CIPE 1999	-	79,809
The German Marshall Fund	49,412	53,350
McArthur Foundation	-	137,433
Other projects	301,925	520,108
	<u>1,853,775</u>	<u>3,080,868</u>
 Income from financing for assets	 <u>40,932</u>	 <u>17,472</u>
	<u><u>1,894,707</u></u>	<u><u>3,098,340</u></u>

3. Expenses on grants, contributions and projects

<i>In BGN</i>	2001	2000
Salaries and benefits	71,741	106,481
Hired services	928,492	1,416,144
Depreciation	48,375	43,335
Supplies and consumable	92,873	142,529
Other expenses	379,379	659,350
	<u>1,520,860</u>	<u>2,367,839</u>

Expenses for hired services include expenses for honoraria of external personnel and the related social security and health insurance contributions, courier and printing services, telephone expenses, utilities.

4. Foreign exchange gains or loss

<i>In BGN</i>	2001	2000
Exchange rate gains	328,576	350,723
Exchange rate losses	(322,241)	(187,844)
	<u>6,335</u>	<u>162,879</u>

5. Impairment losses

<i>In BGN</i>	2001	2000
Balance at the beginning of the year	-	20,873
Impairment losses incurred / (reversed) during the period	19,611	(11,306)
Write off receivable against impairment loss incurred in previous years	-	(9,567)
Balance at the end of the year	<u>19,611</u>	<u>-</u>
Total increase/ (decrease) of impairment losses	<u><u>19,611</u></u>	<u><u>(11,306)</u></u>



Notes to the financial statements

6. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Under construc- tion	Total
Cost						
Balance at 1 January 2001	115,769	178,213	149,027	90,735	335,923	869,667
Acquisitions	<u>113,893</u>	<u>4,664</u>	<u>26,089</u>	<u>5,085</u>	-	<u>149,731</u>
Balance at 31 December 2001	<u><u>229,662</u></u>	<u><u>182,877</u></u>	<u><u>175,116</u></u>	<u><u>95,820</u></u>	<u><u>335,923</u></u>	<u><u>1,019,398</u></u>
Depreciation and impairment losses						
Balance at 1 January 2001	-	48,680	109,188	87,817	-	245,685
Depreciation charge for the year	<u>1,433</u>	<u>35,927</u>	<u>7,466</u>	<u>924</u>	-	<u>45,750</u>
Balance at 31 December 2001	<u><u>1,433</u></u>	<u><u>84,607</u></u>	<u><u>116,654</u></u>	<u><u>88,741</u></u>	-	<u><u>291,435</u></u>
Carrying amount						
At 1 January 2001	<u>115,769</u>	<u>129,533</u>	<u>39,839</u>	<u>2,918</u>	<u>335,923</u>	<u>623,982</u>
At 31 December 2001	<u><u>228,229</u></u>	<u><u>98,270</u></u>	<u><u>58,462</u></u>	<u><u>7,079</u></u>	<u><u>335,923</u></u>	<u><u>727,963</u></u>

7. Intangible fixed assets

<i>In BGN</i>	Software	Patents and licenses	Total
Cost			
Balance at 1 January 2001	13,228	412	13,640
Acquisitions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2001	<u><u>13,228</u></u>	<u><u>412</u></u>	<u><u>13,640</u></u>
Amortisation and impairment losses			
Balance at 1 January 2001	1,542	412	1,954
Amortisation charge for the year	<u>2,625</u>	<u>-</u>	<u>2,625</u>
Balance at 31 December 2001	<u><u>4,167</u></u>	<u><u>412</u></u>	<u><u>4,579</u></u>
Carrying amount			
At 1 January 2001	<u>11,686</u>	<u>-</u>	<u>11,686</u>
At 31 December 2001	<u><u>9,061</u></u>	<u><u>-</u></u>	<u><u>9,061</u></u>



Notes to the financial statements

8. Investments

<i>In BGN</i>	2001	2000
Agency Vitosha EOOD	5,006	5,006
Vitosha Research EOOD	5,000	5,000
	<u>10,006</u>	<u>10,006</u>

CSD is a non-profit organisation which has invested in two companies in prior accounting periods. For the financial year 2001 the subsidiaries that perform business activities in line with the overall goals and the mission of CSD have received no further financial support. Their financial statements have been audited by certified chartered accountants according to Bulgarian legislation, for which some details are presented below:

<i>In thousands of BGN</i>	Net Assets	Profit after tax
Agency Vitosha EOOD	43	4
Vitosha Research EOOD	26	18

9. Receivables

<i>In BGN</i>	2001	2000
Completed Projects	50,777	579,075
Other receivables	23,863	34,247
Impairment losses	(19,611)	-
	<u>55,029</u>	<u>613,322</u>

10. Cash and cash equivalents

<i>In BGN</i>	2001	2000
In local currency	50,050	49,228
In foreign currency	2,280,695	1,473,055
Deposits	800	800
At bank	<u>2,331,545</u>	<u>1,523,083</u>
In local currency	14,779	12,406
In foreign currency	40,284	9,372
In hand	<u>55,063</u>	<u>21,778</u>
	<u>2,386,608</u>	<u>1,544,861</u>

11. Deferred expenses

<i>In BGN</i>	2001	2000
German Marshall Fund	24,431	-
Euro barometer	10,799	-
Office of Research	6,150	-
CIPE 2000	-	43,468
Urban Institute	-	16,892
COLPI	-	8,729
OSF	-	5,198
OSF Book Donation	-	15,237
Stander group - Phare Democracy Program	-	85,601
GMF	-	49,971
IMSI	-	787
Other projects	353	352
	<u>41,733</u>	<u>226,235</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 that have not been completed arise.



Notes to the financial statements

12. Payables

<i>In BGN</i>	2001	2000
Payable to the budget	11,577	16,391
Salaries, benefits and social security payable	13,350	16,047
Payable to suppliers	14,893	1,441
Payable related to VISA credit cards	-	3,095
Other payable	14,879	23,693
	<u>54,699</u>	<u>60,667</u>

13. Deferred Revenue

<i>In BGN</i>	2001	2000
For project activities	79,369	135,922
For fixed assets	120,189	156,458
	<u>199,558</u>	<u>292,380</u>

14. Related Parties

Related party receivables	Nature of the related party relationship	Transaction during the year	Amount	Outstanding balance 31 December 2001
Vitosha Research EOOD	100% of the capital owned by CSD	Paid off financing	BGN 5,889.17	-

15. Events subsequent to the balance sheet date

There have been no material changes or transactions subsequent to the balance sheet date that require adjustment or disclosure in the financial statements prepared for the period ended 31 December 2001.

16. Contingencies

As expenses under project InfoDev are included VAT expenses for the amount of BGN 2,751 and expenses for social security and health insurance contributions on salaries for the amount of BGN 8,319. According to the terms of the agreement for financing it is possible for those expenses not to be approved, and as a result a contingent liability could arise for the amount of BGN 11,070.



Auditors' report to the General Assembly of the Center for the Study of Democracy

Scope

We have audited the financial statements of the Center for the Study of Democracy as at 31 December 2001 set out on pages 1 to 13 in accordance with International Standards on Auditing. The financial statements have been prepared in conformity with International Accounting Standards.

Responsibilities of management and auditors

The financial statements have been prepared by, and are the sole responsibility of the management of the Center for the Study of Democracy. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

1. As at 31 December 2001 the Center for the Study of Democracy has reported investments which are carried at a cost for the total of BGN 10,006. The financial statements of the subsidiaries are not consolidated as per requirements of IAS 27 Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

In our opinion, except for the effect on the financial statements of the matters referred to paragraph 1, the accompanying financial statements give a true and fair view of the financial position of the Center for the Study of Democracy as of 31 December 2001 and the excess of revenue over expenditure in accordance with International Accounting Standards adopted by the International Accounting Standards Board.

2 April 2002

A handwritten signature in black ink that reads 'KPMG Bulgaria'. The signature is written in a cursive, flowing style.

KPMG Bulgaria OOD
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1000 Sofia
Bulgaria