

CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 1996



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
1996 ANNUAL REPORT**

Drawing: Anri Koulev

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1, Lazar Stanev St., 1113 Sofia, Bulgaria

Center for the Study of Democracy

*“To Foster Civil Society in Bulgaria by
Bridging the Gap between Scholars and Policy Makers”*

The Center for the Study of Democracy (CSD) was founded in late 1989 as an independent, non-profit, public policy research organization committed to fostering the stabilization of a democratic social and economic system in Bulgaria by encouraging an open dialogue between scholars and policy makers. CSD is not affiliated with any political party or structure and operates on the basis of the universal principles and values of democracy.

The objectives of CSD are:

- to encourage economic reform in Bulgaria by conducting independent research in the field of privatization and private sector development, providing training to Bulgarian experts, and building an adequate institutional framework for reform;
- to assist the legal reform in Bulgaria by introducing advanced foreign expertise, drafting laws and training members of the Bulgarian legal community;
- to contribute to the acceleration of the process of Bulgaria's accession to the European Union by conducting independent studies, and encouraging an informed public debate on integration issues;
- to provide independent analyses of public attitudes towards social, economic, and political aspects of the transition;
- to encourage the development of a viable non-governmental sector that would guarantee the success of democratic reforms in Bulgaria.

Center for the Study of Democracy
1 Lazar Stanev Street, 1113 Sofia,
Bulgaria Tel: (359 2) 971 3000
Fax: (359 2) 971 2233
E-mail: csd@online.bg
<http://www.csd.bg>

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Overview of 1996

The seventh year in the history of the CSD was very successful. Our organization continued to grow in capacity, significance and international recognition.

The major highlight of 1996 was the SME policy initiative. Undertaken at the request of the local USAID representative, it resulted in the definition of an Action Plan addressing the policy and legal constraints that currently face small and medium size enterprises (SMEs) in Bulgaria, and proposing a set of measures to encourage the growth of this sector of the economy.

Some of the most distinguished Bulgarian experts were involved in this initiative under the auspices of the CSD. The resulting Policy Forum was a high-profile meeting attended by the President-elect, Mr. Petar Stoyanov, the deputy chair of the National Assembly, the ministers of trade and industry, the governor of the National Bank, along with other senior government officials and policy-makers. The CSD was successful in mobilizing bi-partisan political support for the policy agenda outlined in the paper and in receiving endorsement of its priorities by policy-makers from across the political spectrum.

Following the parliamentary elections in April 1997, the environment in Bulgaria is more favorable for economic reform. The political will needed to put into practice the policy recommendations contained in the SME Action Plan exists. Successful implementation of the policy recommendations will be a good testimony to their quality, and the expertise and hard work invested in the process.

Law-drafting has been one of the distinct cornerstones of the CSD's activities since its inception. 1996 was particularly fruitful in this respect. The draft Law on Registered Pledges, developed in cooperation with IRIS-Bulgaria, was passed into Law by Parliament in November. The Draft Law on Non-Profit Organizations, also developed by the CSD Law Reform Program, was approved and endorsed by the Ministry of Justice. As a follow-up, the Program is presently implementing a project to reform the tax framework for non-profit organizations.

In 1996, the CSD's efforts to facilitate Bulgaria's integration into the European institutions included a new initiative to promote the participation of NGOs in the process. In particular, the CSD initiated and hosted a series of meetings between Members of the European Parliament and Bulgarian non-governmental organizations with a view towards establishing a forum for dialogue with Bulgarian civil society representatives. This initiative has been highly praised on both sides and will continue in 1997.

Vitoshka Research, the spin-off venture of the CSD's Sociological Program continued to engage in professional marketing research and consultancy. As in previous years, these activities have furthered the CSD's goal of long-term sustainability.

Considerable efforts and funds were invested during the year into the establishment

of a modern telecommunications facility at the CSD. Internet access is now available to the entire staff. In December, the CSD established a presence on the World Wide Web and our page can now be accessed at <http://www.csd.bg>.

A lot of attention was devoted to the development of the CSD's human potential. The qualification of our staff is continuously being improved through participation in various training courses and programs in Bulgaria and abroad. The CSD also works with a highly experienced body of outside experts and consultants which has contributed to improving our institutional capacity for addressing complex policy issues and has raised the impact of our research and advocacy activities.

As in previous years, the CSD continued to provide a home to the Information and Documentation Centre of the Council of Europe and the MBA Enterprise Corps activities in Bulgaria.

The turbulent start of 1997 has brought new hopes for radical structural reforms which have been delayed during the past four years. With the new reformist majority in Parliament, there is enough political will, and broad public support, for this to happen. These developments will open new opportunities and create an added impetus to the CSD's work in support of the democratic reform process in Bulgaria.



Dr. Ognian Shentov
CSD President

Sofia, April 1997

Part One
Program Reviews

Economic Program

The Economic Program launched its first privatization project in 1991. In the next five years, the scope of research and advocacy activities was gradually extended to include all major aspects of

the economic reforms taking place in Bulgaria. Today, CSD enjoys the reputation of an independent institution which provides reliable professional analyses of economic reform issues.

1991–1995 PROGRAM HIGHLIGHTS

- **Held two international conferences on the problems of privatization and private sector development with the participation of prominent foreign experts from the US, UK, Germany, France, the Czech Republic, Poland and senior Bulgarian government officials;**
- **Published the Privatization and Foreign Investment Monitor - a bi-weekly digest of the Bulgarian media reviewing the privatization and economic reform processes;**
- **Published four policy recommendation papers containing analyses, evaluations and suggestions for amendments to existing legislation in the fields of privatization, foreign investment and debt conversion;**
- **Held 22 policy-oriented seminars and discussions on municipal privatization, investment funds, mass privatization, foreign investment, debt management and the efficiency of consulting firms;**
- **Published three brochures on privatization in Bulgaria and other Central and East European countries;**
- **Published 23 Reform Round Table papers exploring some of the most pressing issues of the economic reform in Bulgaria: tax reform, inflation and pricing policy, agrarian reform, social security and the labor market.**
- **Developed a fully-fledged Debt Conversion Program to assist Bulgarian authorities in drafting the arrangements for Debt-Equity Swaps by combining the existing legal framework for privatization with the new regulatory framework, institutional setup and swap mechanisms.**

The Economic Program activities in 1996 were facilitated by the cumulative effects of the work carried out in the prior five years — the acquired experience, the network of established contacts and CSD's position as an institution committed to promoting economic reforms and privatization. This allowed CSD to continue placing a strong emphasis on result oriented initiatives. Work was concen-

trated on the following key issues:

- **Mass and Market Based Privatization in Bulgaria;**
- **Privatization and Economic Restructuring;**
- **Direct consulting assistance to private Bulgarian companies.**

I. Privatization on a Dual Track: Mass and Market Based Privatization in Bulgaria

Independent research, analysis and public discussion are essential to ensuring that mass privatization is conducted effectively, transparently and competitively. At the same time, it is important that independent policy institutions like CSD continue their research and advocacy work for market-based privatization — a form of privatization which should intensify at the same time as the mass privatization program is implemented.

The main objective of this project was to assist the government agencies in striking the right balance between the two forms of privatization currently underway in Bulgaria. In 1996, CSD's efforts were aimed at:

- extending the municipal privatization know-how acquired in the Bansko pilot project (1994-1995) to other municipalities;
- monitoring the process of mass privatization and providing critical feedback;
- educating the public about the mechanisms of mass privatization and increasing public support for the process.

1. Enhancing the Progress of Municipal Privatization

Establishment of the Municipal Privatization Fund of the city of Rousse

In February, using the model of CSD's Pilot Project on municipal privatization in the Bansko region and with consultations from CSD experts, a Municipal Privatization Fund was established in the city of Rousse. The fund started operating in March. Its legal organization replicates the principles adopted in Bansko. Several other municipalities had considered using this program as a model for

developing their own privatization funds. In response to this interest, CSD prepared information packages on the establishment and management of municipal privatization funds which were circulated to ten municipalities. Six of them — the municipalities of Gabrovo, Svishtov, Stara Zagora, Pleven, Vidin, and Vratsa showed interest in receiving further expert assistance from CSD in the establishment of regional investment/privatization funds.

Assistance and Sample Documentation to the Municipality of Svishtov

In February, the State Property and Privatization Department of the Svishtov municipality requested assistance, detailed guidelines and sample documentation on specific procedures related to the process of municipal privatization — tenders and negotiations with potential buyers as privatization instruments.

The documentation, know-how and consultations provided by CSD experts facilitated the actual initiation of municipal privatization procedures in the municipality.

Workshop on Municipal Privatization: Institutional, Financial and Legal Aspects, March 21

The event was attended by deputy-mayors and heads of privatization departments in twenty municipalities, experts from the Privatization Agency, along with representatives of the Legal and Local Administration Departments at the Council of Ministers.

The purpose of the workshop was to evaluate the progress of municipal privatization — the most dynamic component of the privatization process in Bulgaria. It provided a forum for municipalities to exchange views and share good practices. Participants analyzed

the practical results of Their day-to-day activities and discussed suggestions for amendments to the legal framework of municipal privatization.

They were briefed on the results of the joint municipal privatization initiative of CSD and the municipality of Bansko. This project has a three-year history and its main practical output was the adoption of the Rules for the Organization and Activities of the Municipal Privatization Fund by the Municipal Council of Bansko.

Drafting Amendments to the Legal Framework of Municipal Privatization

CSD experts drafted a set of proposals for amendments to the Privatization Law. The proposals envision that municipalities should be empowered to decide which enterprises to be included in the privatization program.

Draft amendments were forwarded to

the Privatization Agency. They were prepared as a follow-up action to the workshop on municipal privatization held on March 21 and incorporated discussion results.

2. Providing Policy Recommendations and Consulting Services

Development of a Final Policy Recommendations Paper

The project resulted in a series of policy analyses of the current legal framework for mass and market-based privatization, conducted in consultation with independent experts and policy-makers. Based on these analyses and the results of four sociological surveys, CSD developed a Final Policy Recommendations Paper to help the government prepare an overall privatization strategy.

The Policy Paper provides a comprehensive analysis of major pieces of legis-



Dr. Maria Prohaska, Coordinator of the CSD Economic Program

lation related to privatization. It traces the development of legislation since 1989 and analyzes the results of its implementation to date. Specific proposals for amendments to existing regulations are also outlined. The following are a few excerpts from the paper:

"The legal framework of privatization is very fragmented. The Law on Restructuring and Privatization of State and Municipally Owned Enterprises is conceived as a "framework" law which envisages the passage of a large body of secondary legislation...

Mass privatization is regulated on an "ad hoc" basis in the absence of a clear concept or strategy. The approach adopted by the government is based on the assumption that changes can easily be introduced to the body of secondary legislation and the Law, itself, as the need for them arises. Such an approach can be very risky...

The powers and responsibilities for preparing and implementing privatization are spread over a large number of government institutions and agencies. Some government bodies act in different capacities on different occasions. For instance, the Council of Ministers is entrusted with implementation tasks and regulatory powers but it is also authorized to make operational decisions on specific transactions...

Apart from faults in the legal framework of privatization, there are also important subjective factors which affect the implementation, or poor implementation, of privatization procedures..."

The document was circulated to the National Assembly Economic Committee, government officials, business representatives and mass media.

Roundtable Discussion "Land Reform and Development of Agriculture in Bulgaria", March 5

The roundtable discussion was attended by Members of Parliament, representatives of the Ministry of Agriculture and Food Industry and other government

institutions, the Council of Agricultural Cooperatives in Bulgaria, independent experts and representatives of the academic community.

CSD's experts reiterated the importance and priority of agriculture for the Bulgarian economy, and the need for a long-term government policy. Participants rallied around the idea that Bulgaria should move from the stage of declarative intentions to pragmatic decisions without unnecessary politicization of the question of land ownership and the future agriculture structure.

Thirty copies of the general overview of discussions and recommendations were sent out to all members of the National Assembly Economic and Agriculture Committees and the Ministry of Agriculture and Food Industry.

Workshop "The Role of Bulgarian and Foreign Consultants in the Privatization and Restructuring Process", July 9

As an acknowledgment to its contribution to the privatization process in Bulgaria, CSD was invited by the Bulgarian Association for Management Consulting to co-organize this workshop, which addressed the problems of consultants' participation in the privatization process and restructuring of Bulgarian economy. CSD presented the results of its four-year work on mass privatization. Discussions focused on breaches in the legal framework and recommendations for amendments to existing regulations.

3. Building Public Support for Mass Privatization

"The Wealth of the Nation"

CSD experts helped design the model of a game called "The Wealth of the Nation". It simulates the stages of mass privatization and helps both to educate the participants and to monitor potential mass privatization behavior.

Approximately 10,000 students from Sofia participated in the game. A general report on the game with conclusions and recommendations was submitted to the Center for Mass Privatization, privatization funds and consulting firms.

Brochure "Mass Privatization — Investment Alternatives"

The brochure was published with the goal of educating the public in investment decision-making. It addresses both specialists and the broader public, and assists the readers in making right investment choices. The brochure was disseminated among Members of Parliament, mass media, investment funds, relevant ministries, government agencies and municipal authorities.

Seminar "Contemporary Corporate Governance: Particular Applications to Bulgarian Privatization Funds and Enterprises in Process of Privatization", June 11

This seminar, organized jointly with the Citizens Democracy Corps and the *Finsys* consulting firm was attended by 50 participants — managers and representatives of more than ten privatization funds, government officials, journalists and academics.

Mr. Geoffrey Mazullo, CDC Volunteer and expert in corporate governance and post-privatization management with extensive experience in CEE and Russia, addressed the three major contemporary models of corporate governance (the Anglo-US, Japanese and German) and some specific corporate governance issues in transitional economies.

At a separate session Dr. Maria Prohaska, CSD Economic Program Coordinator and Dr. Nikola Hristovich, President of *Finsys* chaired a discussion on the legal framework of mass privatization in Bulgaria and its implications for

corporate governance over the next two to three years.

4. Monitor of Privatization and Foreign Investment

CSD continued to publish its monthly *Monitor of Privatization and Foreign Investment* (in Bulgarian) and prepared two special issues in English. One of them was published to coincide with the annual meeting of the EBRD in Sofia in April.

In 1996 new sections including analytical materials and statistical data on privatization and foreign investment in Bulgaria were added to the Monitor. It was distributed in a circulation of 150 copies to politicians, Members of Parliament, ministers, government officials, trade union leaders, bankers and major media.

In a survey conducted among readers of the Monitor, CSD's project was assessed as an important oversight mechanism which keeps the public informed on recent developments in privatization and promotes transparency and clarity of the "rules of the game".

Since October, the Monitor is also available, once in two months, on the World Wide Web. The online edition contains English translations of press articles which summarize the main trends and results of privatization.

Public Opinion Polls

As part of its "watchdog" function, CSD conducted two national public opinion polls and two qualitative surveys to provide relevant background information on current developments in public attitudes towards, and behavior concerning privatization.

Results from the surveys provided grounds for comparative assessment of the public involvement in mass privatization and served as a basis for defining practical actions.

Survey information generated considerable interest among representatives of privatization funds as it helped in establishing the parameters of their activities in attracting privatization vouchers.

5. Dissemination and Media Impact

Economic Reforms Around the World

This is a collection of articles selected from issues of the *Economic Reform Today* journal — a publication of the Center for International Private Enterprise in Washington, D.C. which monitors the major trends and outcomes of economic reforms world-wide.

Different articles discuss the relationship between democratic changes and the success of economic reforms, the importance and role of business associations in contemporary market economies and the outcomes of privatization in Central and Eastern Europe. An article "Bulgaria: Summing up of Privatization" by Dr. Maria Prohaska, Coordinator of the CSD Economic Program is also included.

Published in a circulation of 1,000 copies, the collection was disseminated among Members of Parliament, professionals, government officials, academics and journalists.

Media Coverage

In 1996 project activities were brought closer to the public through different media channels — TV, radio, daily and weekly newspapers and magazines. The media coverage was designed to reach two major target groups — policy-makers, experts and the business community, on the one hand, and the general public, on the other. With the purpose of reaching the first group, CSD published 35 articles on the legal framework and procedures of privatization, corporate governance, privatization funds man-

agement and other professional topics in selected newspapers and magazines — "Standart", "Pari", "Capital" and "Cash". Another set of articles of a more general nature was published in newspapers with wide circulation ensuring coverage of about 50-70% of the country's population aged 18 and over — "24 Hours", "Kontinent" and "Trud". In addition, the project activities were covered in 11 broadcasts on radio and television.

Extensive coverage of the progress of privatization by the media has given CSD excellent exposure and increased public awareness of its activities.

II. Privatization and Economic Restructuring in Bulgaria

In September, CSD launched a new project "Privatization and Economic Restructuring in Bulgaria", sponsored by the Center for International Private Enterprise (CIPE). The project is to be implemented until September 1997. Its main objective is to contribute to the acceleration and success of privatization and economic restructuring in Bulgaria. Through research, advocacy and dissemination activities, the project:

- assists in refining and implementing the mass privatization program to make it more effective, transparent and successful;
- provides continued assistance to government institutions responsible for privatization in developing a consistent privatization strategy with medium-term targets and structural priorities;
- facilitates privatization at the municipal level by transferring best practice models to other regions;
- increases expert and public understanding in post-privatization and corporate governance issues through education and information activities.

The research and advocacy activities in 1996 were based on the understanding



Professor Sol Estrin from the London Business School (right) and Professor Ioanis Katzulakus from the Athens Institute of Economic Research (middle) presiding one of the workshops at the conference.

that the future of Bulgarian economic reform would depend largely on the success of privatization. The following couple of years will be crucial in this respect. Failure now would mean starting economic reform all over again. Unfortunately, privatization in Bulgaria is often seen as an end in itself. There is little understanding of its significant role as the core of economic structural reform. CSD's activities during 1996 focused on supporting the government institutions in their efforts to implement an effective, transparent and successful privatization program. Specific actions included:

International Conference: "Restructuring Transitional Economies in the 90 s: Enterprise Behavior and Financial Intermediaries", October 11-13

Access to advanced international expertise and know-how is crucial to the suc-

cessful restructuring of the Bulgarian economy. This conference was conceived with the objective of introducing Bulgarian officials to the results of economic restructuring in Central and Eastern Europe (CEE) and its relationship to privatization, the role of financial intermediaries and the development of capital markets. The conference

- identified restructuring outcomes at different stages of reforms;
- outlined the advantages of the different types of restructuring in some CEE countries and related them to specific background factors and respective policies;
- explored the relationships between enterprise restructuring and banking sector liquidity and defined alternative solutions.

It was a joint initiative of CSD and the East-West Economic and Financial Center. Participants included academics, policy makers, bankers, enterprise man-

agers and investment funds managers who discussed the challenges of the transitional period and the consequences of privatization and restructuring in CEE economies. Also present were prominent experts and analysts of the economies in transition from Austria, Great Britain, France, Italy, Greece, Canada, the US, Albania, Macedonia, the Czech Republic, and Bulgaria. Among them were Mr. Sol Estrin (London Business School), Mr. Jean-Louis Brille (National Institute for Economic Studies and Statistics), Mr. Ioanis Katzulakus (Athens Institute of Economic Research), and Mr. Robert Kennedy (Harvard Business School).

The fact that some CEE countries have performed better than Bulgaria in terms of number of privatized entities has drawn the attention of many Western analysts. One of their objectives is to study the post-privatization behavior of the formerly state-owned enterprises from the point of view of the volume of production, market share (in-country and export), competitiveness, management changes, employment and several other indicators. While some general conclusions have already been made, a complete and accurate picture is still to be developed.

The conference drew an important conclusion with respect to the adaptability of enterprises in CEE countries to the market environment. The highest degree of adaptability is demonstrated by the newly established private companies, followed by enterprises owned by outside investors (particularly foreign investors) and workers/managers owned enterprises. This should be taken into serious consideration in shaping the privatization strategy. Bulgaria should also devote greater attention to studying the role of financial intermediaries in enterprise restructuring.

The foreign participants were briefed on the results of privatization, the mass privatization program and the trends in

capital markets development in Bulgaria. The prevailing opinion was that the conference had been very timely in light of the structural changes in the country.

Implementation of Training and Public-Awareness Actions on Issues of Corporate Governance

Corporate governance is a term used to define the mechanisms of governance of joint-stock companies. As a concept, it is relatively new to Bulgaria but it will gain significant importance upon completion of the mass privatization process. It is also important from the viewpoint of structural reforms and their successful implementation.

In this context, CSD is among the first organizations in Bulgaria to prepare and implement a program for dissemination of information and training of selected professional groups and the general public on the issues of corporate governance. Specific actions in the program include:

- study visits to the Czech Republic, Poland, Russia and Moldova to explore the problems of post-privatization management of enterprises, the role of privatization funds and the implementation of Western models of corporate governance in transitional economies;
- workshops to formulate the major problems and trends in the future model of corporate governance in Bulgaria;
- town hall meetings to spread information on practical topics such as shareholders rights, proxy voting and models of corporate governance; and
- broad media coverage.

Public Opinion Surveys

A series of sociological surveys on public attitudes towards privatization are projected within the framework of this project. They are carried out in coopera-

tion with CSD's Sociological Program/Vitosha Research.

In the current economic situation in the country, few organizations have the resources and expertise to perform a privatization watchdog function in a consistent and reliable way. CSD has persistently monitored the progress of privatization over the past six years and considers this to be an important vehicle in implementing its public service objectives. Its strong reputation for independence and objectivity have made its survey research findings a reliable and respected source of information.

The first of the series national sample opinion surveys was conducted in October to monitor public attitudes towards different forms of privatization and its results. On the basis of the collected empirical data, CSD was able to draw analyses on the progress of privatization and on emerging attitudes of different social groups. The survey results were summarized in separate analytic papers which were provided to the relevant government agencies and published through a variety of media.

III. Migration — Europe's Integration and the Labor Force Brain Drain

At the beginning of 1996 CSD finished this two-year international research project which examined the brain drain from Bulgaria with a view of identifying the scientific and economic consequences from the migration of scientists and experts. The project, supported by the Commission of the European Communities, involved 14 research teams from ten Central and East European countries including Poland, Hungary, Lithuania, Latvia, Estonia, the Czech Republic, Slovakia, Romania, Slovenia and Bulgaria, coordinated by CSD.

The transition to a market economy and the democratic changes taking place in Bulgaria since 1989 have had a particularly adverse effect on science. The fall

in production and the continuing economic crisis have limited dramatically the use and exploitation of research results. The state budget allocates very little funding to science and R&D. The stage of development, nature and size of the SME sector is such that it is still unable to support R&D. The lack of a clear government strategy or program for promoting the development of science has resulted in a large-scale emigration of researchers which aggravates the intellectual potential of the country. This project produced the first comprehensive study of the brain drain process from Bulgaria. The survey findings became the object of broad public discussions on the problems of science and researchers, the government strategy and specific actions which need to be taken to safeguard the intellectual potential of the country and mobilize this resource in overcoming the current economic situation.

It was also the first attempt at providing a comparative analysis of developments in Bulgaria and other CEE countries, which helped outline some typical migration problems that are particularly acute in this country.

The final survey report was provided to the Bulgarian Academy of Science, the Ministry of Education and others. It generated high interest among Bulgarian print and electronic media. Radio Free Europe broadcast a three-hour interview with the authors on the problems of Bulgarian scientists and experts' migration. The Commission of the European Communities assessed highly the Bulgarian report and decided to publish it in full form.

IV. MBA Enterprise Corps

MBA Enterprise Corps is a program designed to provide long-term assistance to private enterprises in former socialist countries by directly placing Corps members into companies or small busi-

ness development consulting groups. It also gives graduate MBAs from leading US universities the opportunity for an early and significant international experience in order to enhance their chances of long-term global effectiveness. Corps members spend one to two years with the host companies, helping them streamline their operations, develop business plans, establish marketing programs, launch new products, negotiate joint ventures and train employees.

The four Corps members who started work with their host companies in October 1995 completed their assignments at the end of September 1996. All of them provided valuable assistance to the companies. Three Corps members are currently working with Chimimport, the Marketing, Advertising, Research and Communications Company MARC and the Vitosha Agency.

In 1996, the main highlight of the MBA EC program in Bulgaria was its participation as a founding member in the Firm Level Assistance Group (FLAG) Consortium and the structuring of its operations. FLAG unites seven US non-

profit organizations that have pooled their resources to provide high impact technical assistance to private business and business associations in Bulgaria. It comprises the Citizens Democracy Corps, International Executive Service Corps, Volunteers in Overseas Cooperative Assistance/Agricultural Cooperative Development International (VOCA/ACDI), Land O'Lakes, University of Delaware, Partners in International Education and Training/Entrepreneurial Management and Executive Development International (PIET/EMED) and MBA Enterprise Corps. FLAG was formed in response to the US Agency for International Development's re-engineering program based on the premise that a more integrated approach to private sector intervention could be obtained by focusing the experience and resource of the group on targeted clients. MBA Enterprise Corps is represented in all FLAG bodies and successfully adapted its internal procedures to FLAG mechanisms. This will allow it to at least double the number of assignments for the year 1997.

Vitosha Research / Sociological Program

1991–1995 PROGRAM HIGHLIGHTS:

- Organized a national interviewer network consisting of approximately 350 interviewers. It is regionally based and consists of 28 regional groups (100 interviewers in Sofia and 250 in all regional centers);
- Conducted 60 quantitative national sample surveys (public opinion, social, marketing and audience research) and 30 qualitative surveys. The basic survey methods employed included face-to-face interviews, telephone interviews, focus group discussions, omnibus surveys, and computer-based perception analyzer system (quick-tally) for assessment of radio and TV programming and advertising;
- Organized an international seminar on survey methodology and organization in Sandanski, southern Bulgaria, in August 1992. The seminar was attended by pollsters from Hungary, Poland, Russia, Romania, and Bulgaria. The lectures included Dr. Peter Mohler, Director of ZUMA, Mannheim, Dr. Mary McIntosh, Chief of the European Branch of USIA Office of Research, and leading US pollsters, Nancy Belden and Gary Lawrence;
- Completed a research project, At-risk Groups and Social Problems in Bulgaria, in August — September 1994, which was part of package of surveys commissioned by the World Bank. The survey design employed several research techniques, including a quantitative survey of clients of Social Assistance Offices, focus group discussions with experts and representatives of risk groups, and in-depth interviews with selected representatives of high-risk groups. The analytical report of survey findings was presented at a seminar organized by the Ministry of Labor and Social Welfare and CSD;
- Prepared more than 20 publications, covering topical issues such as pre-election attitudes and electoral behavior, value system and political affiliations of Bulgarian society, social stratification, at-risk groups in Bulgaria and public attitudes towards mass privatization.
- Established good working relations and research co-operation with institutions including the BBC World Service, USIA Office of Research, Open Media Research Institute, the World Bank, Worldnet TV and the International Social Survey Program, to name but a few.

Vitosha Research conducted 26 quantitative and qualitative surveys and research projects in 1996. They were focused upon:

- Monitoring the public perception of economic, political and social changes in Bulgaria;
- Conducting radio audience research, media evaluation and music research;
- Conducting market research and consultancy projects;
- Preparing a series of analytic reports on economic reforms, mass privatization, social and political values during the transition;
- Developing survey information database and employment of new research techniques;
- Providing methodological and technical support to the other CSD projects.

The Sociological Program started operating shortly after the establishment of CSD. In 1990 it conducted the first independent pre- and post election surveys after the democratic changes in Bulgaria. This was an important contribution to democratic institution building and to fostering public awareness of the evolving new political and economic system. Vitosha Research was launched at the end of 1994 to develop new orientations of work for the Sociological Program of CSD and to deepen its concentration in the field of market research.

Since its first surveys Vitosha Research has accumulated considerable experience in quantitative and qualitative research, which provided the foundation for building up an effective, professional research unit. Vitosha Research now works on contractual basis, covering a wide range of activities: monitoring privatization and economic behavior, gauging political attitudes, determining value orientations, conducting market research, media and audience research, advertising studies and others.

I. Research Projects

The research projects conducted in 1996 fall into four major categories: public opinion surveys, media research, market research, social and economic research.

1. Public Opinion Surveys

Seven research projects were completed. Five of them were based on national representative samples and two on quota samples. A total of 6500 face-to-face interviews were conducted by the national interviewer net of Vitosha Research. The basic topics covered were:

- public opinion about politics and the economy;
- elites and the changes in Bulgaria;
- monitor of mass privatization;
- private business and the state.

2. Media Research

Six media research projects were conducted in 1996. Different research methods were used to evaluate some media audiences:

- telephone interview;
- focus group discussion;
- media monitoring;
- music research.

3. Market Research

Six quantitative market research studies were conducted during the year. They included 3500 face-to-face interviews, 2000 telephone interviews and 9 field observations. The following research fields were covered:

- traffic count studies;
- regional infrastructure audit;
- brand image;
- advertising post-campaign surveys;
- consumer behavior.

Market research projects were commissioned directly, or through Bulgarian representatives, by KFC, Philip Morris Services — Bulgaria, Amoco Petroleum Products (Bulgarian and Polish branches), Intco Trade Ltd. Three new nation-wide and regional databases were developed jointly with Datecs Ltd.

4. Social and Economic Research

Social and economic research included both quantitative and qualitative surveys. They included over 4000 face-to-face interviews, 30 in-depth interviews, and 6 focus group discussions (in Sofia, Yambol, Kurdjali, Straldja, Tenevo), covering the following topics:

- attitudes towards social justice;
- relationships between citizens and government authorities;
- economic climate for the private business in Bulgaria;
- non-governmental organizations and their economic environment;
- rural socio-economic survey of three country regions in Bulgaria.



Mr. Michael Type, Head of the European Broadcasting Union Data & Reference Center (right) and Mr. Alexander Stoyanov, CSD Director of Research during the Market Reforms, Advertising and Audience Research conference.

Social and economic research projects were commissioned by the World Bank, the University of Glasgow, the National Council for Soviet and East European Research, the US International Research and Exchanges Board, Japan International Cooperation Agency and the Royal Netherlands Embassy to Bulgaria.

II. Conference

The conference *Market Reforms, Advertising and Audience Research* was held jointly with the European Broadcasting Union (EBU) in March. Distinguished professionals like Michael Type, Head of EBU Data & Reference Center, Dr. Peter Diem, Head of Audience Research, ORF, Austria, and Jane Perry, Media Research Director of Young & Rubicam Europe made presentations at the conference.

Apart from expert lectures on different research practices of radio and TV audience measurement, the conference provided a forum for discussions on the problems of competition and professional communication in the fields of advertising and audience research. It was attended by broadcasters, journalists and advertisers. Broadcast researchers were represented from both the public and private sector.

III. Publications

Several analytic reports, articles and working papers were prepared by the staff members of Vitosha Research:

- *Monitor of Mass Privatization* (analyses of the results of a series of surveys conducted in April 1996 — October 1996),
- *Monitor of Mass Privatization* (analyses of the results of a series of surveys

conducted in October 1995 — October 1996),

- *Does Bulgarian Society Support Mass Privatization* (October 1996),
- *Private Sector and Government Actions in Bulgaria* (November 1996),
- *Public Perceptions of Economic Problems* (December 1996).

Law Reform Program

The Law Reform and Comparative Law program was established in the early spring of 1991. It started out as a facilitator of the law reform process in Bulgaria and focused its efforts mainly on establishing and supporting the contacts between the Government and foreign assistance institutions. The initial focus of the Program was constitutional law reform. With the enactment of the new Constitution in the spring of 1991, the emphasis in the activities shifted towards commercial law reform. During the past four years the Program gradually developed into a legal reform agent with a considerable law drafting record. It now works on substantive legislative reform projects attracting its own expert resources.

1991–1995 PROGRAM HIGHLIGHTS:

- **Organized two constitutional law seminars with the participation of foreign experts and members of the Grand National Assembly which facilitated the process of enactment of Bulgaria's new Constitution;**
- **Provided the government with expert comments on more than thirty draft laws in the following areas: copyrights, patents, commercial transactions, bankruptcy, privatization, commodity exchanges, trade, chambers of commerce, judicial structure, administrative justice, the bar, waste, protection of sea waters, criminal code, special investigative means, protection of information, etc.;**
- **Provided the government with five concept papers containing leading world and international concepts on drafting laws on money laundering, investment funds, foreign trade regulation, government procurement and securities regulation;**
- **Coordinated four policy oriented legal seminars/discussions involving government officials and representatives of the public, covering bankruptcy, copyrights, lawyers' code of ethics and accreditation of law schools;**
- **Organized a series of educational legal seminars on international sale of goods, franchising, joint ventures, alternative dispute resolution, commercial arbitration, purchase and sale of an on-going business, leasing, and copyrights and trademarks, GATT, ;**
- **Conducted two Training for Trainers workshops;**
- **Initiated and supported a successful effort to draft a new law on non-profit organizations for Bulgaria;**
- **Participated in the drafting of a Law on Registered Pledges, passed by Parliament in November 1996;**
- **Prepared six publications on topical legal issues including foreign investment law, in-kind contributions in commercial companies, privatization, government structure and operations.**

The Program has in its record the Law on Registered Pledges, developed in cooperation with IRIS-Bulgaria, and passed by the National Assembly in November last year. The Draft Law on Non-Profit Organizations, which was also developed by the Program, has been approved and endorsed by the Government, and is awaiting consideration in Parliament. As a follow-up, the Program is presently working on the development of the tax legal framework for non-profit organizations and government procurement laws. Particular focus is also placed on issues of approximation of Bulgarian law to EU legislation.

I. Legislative Reform

1. Reforming the Legal Framework for NGOs in Bulgaria

A. Law on Non-Profit Organizations

For the past three years, CSD has been working on drafting a Law on Non-profit Organizations in Bulgaria. The Draft, developed with the expert resources of the Law Program and endorsed by the Ministry of Justice, is about to make its way into Parliament. Throughout the year, the Draft went through a series of discussions with NGOs and government officials. Such networking was an important vehicle for improving the draft law and ensuring its adequacy to the needs of the non-profit sector.

Among the government agencies dealing with NGOs, the Ministry of Finance is to play a key role in backing up the Draft on its way to becoming a Law. In view of this, in June CSD organized a workshop for **Discussing the Position of the Ministry of Finance on the Draft Law on Non-Profit Organizations**. As the Ministry of Finance will also be a key enforcement agency, the workshop provided a broad discussion basis where representatives of the Ministry

could meet other experts and share views on the Draft. The Ministry's position was presented by Mr. Istilian Simeonov, an expert in Corporate Taxation Department of the Ministry of Finance. In order to receive feedback on the Draft Law and to prepare the ground for proper future implementation of the law, CSD organized a number of training seminars.

Training Seminar on the Law on Non-Profit Organizations for NGO Managers, April 23

The seminar was part of a series of events organized by the CSD for the development of NGOs and their capacity to function and grow in a new environment. Participants were invited with the active participation of the Civil Society Foundation, the Union of Bulgarian Foundations and Associations and the Open Society Fund through its community network. The members of the drafting task force at the Ministry of Justice gave a short explanation on the Draft's final version as well as on some future implementation issues. The discussion focused on the impact of the present legal, political and social situation on the Draft and its future enforcement.

Training Workshop on the Law on Non-Profit Organizations for Judges, April 28

The courts will be a crucial component of the future implementation of the NGO law as the life of every NGO starts and ends in a court procedure. The workshop was attended by judges from all instance courts, including all the Registry Departments of the 29 District Courts in Bulgaria, and three Supreme Court justices dealing with registration appeals. Sofia City Court Judge Borislav Belazelkov, Mr. Stephan Kyutchukov and other members of the drafting task force participated as panelists and

resource persons providing background on the motives of the law. The result of the workshop was a better understanding by the participating judges of the principles of the proposed legislation which is a key component for its most effective enforcement in the future.

In order to further facilitate the proper implementation of the Law on Non-Profit Organizations when enacted, in October CSD initiated a process of **Drafting a Commentary to the Future Law**. An expert commentary made it possible for the creators of the Law to express in "layman's" terms the fundamental concepts and legal techniques embodied in it. The comments include case examples of the existing court practice and a comparison between the newly introduced and the repealed legal frameworks. The commentary will be particularly useful for both practicing lawyers and NGO activists.

B. Reforming the Tax Environment for NGOs in Bulgaria

Alongside the effort for facilitating the enactment of the Draft for a Law on NGOs, in 1996 CSD launched a follow-up project, supported by the European Union Phare Democracy Program, aimed at reforming the relevant collateral legislation. While the Law on NGOs will provide the core of the framework by rules on the creation, status, organization and functioning of NGOs, the collateral legislation will complete and make operational the required legal framework. It is by virtue of this legislation that certain tax breaks and other incentives for NGOs and charitable giving will be established in Bulgaria.

The current tax environment is not favorable for the functioning of NGOs. Tax laws do not provide for a harmonized treatment of natural and judicial persons subject to *Income or Corporate Taxation*, as regards incentives for their donations to NGOs. There are no

relieves for NGOs with respect to customs and excise duties, with a few exceptions provided for certain organizations.

The Task Force

The CSD task force, which includes also managers of leading Bulgarian NGOs, representatives of academia, auditing companies, courts, and private practitioners with expertise in the field of taxation, are developing recommendations for specific amendments to the existing tax laws. The proposals elaborated by the task force were coordinated with experts from the Ministry of Justice, Ministry of Finance and other relevant institutions.

The task force meetings were preceded by extensive collection of information on NGO taxation and tax treatment of donations to NGOs, particularly in the US and West European countries. Some relevant extracts of materials on this topic were translated into Bulgarian in order to be accessible to a larger audience in Bulgaria.

Public Outreach

Discussions with the Relevant Government Agencies on Income Tax and Local Taxes

At a meeting with representatives of the Ministry of Finance in October, the drafting task force presented the idea of introducing equal tax treatment of charitable giving by employees, on the one hand, and freelances and sole proprietors, on the other. The Ministry officials introduced the participants to the relevant ideas under the Draft Law on Income Tax being elaborated by the Ministry. The discussion was of substantial importance for clarifying the positions of both representatives of the non-profit sector in Bulgaria and government representatives in the sensitive area of taxation.

Conference with Representatives of Bulgarian Non-Profit Organizations Regarding Proposed Amendments to the Law on Income Tax and Law on Local Taxes, November 18

Following the discussion with government representatives, the proposed amendments were discussed at a workshop held at CSD with the participation of over thirty representatives of Bulgarian NGOs, and legal experts in the field of NGO law. The discussion provided valuable input to the drafting process as it allowed the task force members direct contact with future beneficiaries and outside expertise.

Proposed Amendments at the First Stage of the Project:

- *Law on Corporate Tax.* The working group focused on the development of amendments to the existing corporate tax law with a view to creating incentives for corporate charitable giving to NGOs.
- *Law on Value Added Tax; Custom and Excise Duties.* The activities of NGOs usually depend on support and donations from abroad which include literature, educational and medical equipment and the like. Goods received as donations from abroad are subject to value added taxation and customs duties. In view of this, the task force started drafting legislative amendments providing for relief in the fields essential for NGOs.
- *Law on Income Tax and Law on Local Taxes and Fees Concerning Charitable Donations.* The proposed amendments are aimed at making tax relieves for charitable giving. The suggested mechanism represents both a means of limiting tax relieves only to cases of evident benefit to society, and a means of introducing reliable control devices.

C. Research and Technological Development

The Ministry of Education, Science and Technology, the TEKLA private Consortium and CSD elaborated an analysis of the existing legal framework on scientific and technological research and drafted a concept paper on the need and directions of its development. The partners launched the elaboration of a draft law on research and technological development aimed at developing the country's scientific potential and promoting the economic reform in general.

2. Approximation of Bulgarian Law to European Legislation

In 1996, CSD continued its effort to facilitate the process of approximation of Bulgarian law to European Union legislation as well as to European conventions and international agreements. The approximation aspect has been a key consideration in all activities of CSD aimed at reforming Bulgarian law.

SME Legislation

During the drafting of a *Policy Recommendation Paper on Small and Medium Enterprise Sector in Bulgaria* (described in more detail below), CSD's Law Program analyzed the legislative recommendations in the paper against the background of the Europe Agreement and the relevant EU legislation.

The policy recommendation paper paid special attention to the existing EU legislation on SMEs, such as the First Directive of March 9, 1968 regarding public availability of commercial registry information and Recommendation of April 3, 1996 concerning definition of SMEs.

European Social Charter

In conjunction with the Information and Documentation Centre on the Council

of Europe-Sofia, the Law Program translated the European Social Charter into Bulgarian. A task force was set up to prepare an analysis of the compatibility of Bulgarian legislation with the Charter. An expert was appointed to write a paper on the degree of compatibility which could provide the basis for future decision on the signing of the European Social Charter by Bulgaria. The revised Bulgarian version of the European Social Charter was formally approved by the Ministry of Foreign Affairs.

3. Commercial Law

Law on Registered Pledges

In 1996, the CSD/IRIS-Bulgaria Project task force finalized its work on the Draft Law on Registered Pledges. The

Draft was passed into Law by Parliament in November, which exemplified the significant pro-legislative impact of the informal sector in democratic societies.

The team of experts finalized its one-year effort which involved dynamic interaction with experts of the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development. The opinion of academic experts from Germany, the United States, Poland and Hungary was used as well. The team of experts worked closely with the Bulgarian Ministry of Justice, the Council of Ministers and the National Assembly Committees thus ensuring government support for the project. In 1997, the necessary supporting legislation will be developed jointly with the Ministry of Justice to



The task force group which drafted the Law on Registered Pledges: (from left to right) Mr. Silvy Tchernev, Attorney-at-law, Mr. Borislav Belazelkov, Judge at Sofia City Court, Ms. Maria Yordanova, Senior Legal Advisor at United Bulgarian Bank, Dr. Angel Kalajdjiev, Associate Professor at Sofia University School of Law, Ms. Jerry Coletti, IRIS-Bulgaria Director and Mr. Stephan Kyutchukov, Coordinator of the CSD Law Reform Program.

enable the Central Registry for Pledges, envisaged by the law.

With the passage of the Law on Registered Pledges, Bulgaria became the third European country, together with Norway and Hungary, where a modern non-possessory pledge system with a central pledges registry is being implemented.

II. Public Outreach Activities

The use of a public outreach mechanism is of particular importance for achieving the desired impact of the overall legal reform efforts of the Program. In this way, it solicits the support of the target communities and receives valuable feedback for its priorities.

Roundtable Discussion of the Legal Issues Affecting Small and Medium Size Businesses in Bulgaria, February 12

The purpose of the meeting was to bring together representatives of the Bulgarian business community to discuss the legal impediments to doing business in Bulgaria and to define areas for legal reform. The discussion was attended by representatives of the Bulgarian Energy Efficiency Foundation, Union of Private Economic Enterprises, Bulgarian Chamber of Commerce and Industry, National Association of Real Estate Brokers, Bulgarian Industrial Association, EU Phare and the US Department of Treasury. The topics discussed included finance and tax, creditors' rights, social security, pensions and other benefits. The participants shared thoughts and ideas on ways of coping with the above issues, including drafting new legislation, amending existing laws, improving the implementation process.

Technical Discussion on the Legal and Business Planning Issues Involving the Taxation of Insolvent Businesses, April 23

Tax experts from the private sector, representatives of leading auditing compa-

nies, and representatives of the World Bank, ABA/CEELI and CSD discussed net operating losses, as well as how they are treated in Western systems and under Bulgarian Law. The discussion also focused on how a debt-equity conversion or the issuance of new equity affects net operating losses in reorganization cases.

Roundtable Discussion Workshop on the Bulgarian Central Depository for Securities, September 15

The purpose of the roundtable workshop was to bring together the persons responsible for the establishment and operation of the Depository with representatives of the banks and financial brokers who may become participants in and users of the Depository. Participants in the discussion included representatives of the Ministry of Finance, the Bulgarian National Bank, the Center for Mass Privatization, the Securities and Exchange Commission, the Central Depository AD and the Bulgarian Stock Exchange. Also participating were leading professionals from the US Securities and Exchange Commission and the National Securities Clearing Corporation.

Technical Discussion on the Use of Expert Testimony in Copyright Piracy Prosecutions, June 8

The discussion involved judges from the Supreme Court and the Sofia City Court, representatives of the private sector and representatives of NGOs dealing with protection of intellectual property rights in audio-video products. The participants discussed the legal provisions on expert assistance and the use of expert testimony in copyright piracy prosecutions. Relevant case-law was discussed.

Vesti Newsletter

In late 1996, the Law Program published the fourth issue of its *Vesti*



Dr. Michael Havercamp, Associate Professor at the College of Human and Community Sciences, University of Nevada trained Bulgarian NGO representatives on Organizational Visioning, Action Planning and Effective Teamwork.

newsletter presenting the activities of the Program. The main topic of the issue was the Program's effort of reforming the tax environment for NGOs, including expert analyses, interviews with task force members and presentation of public events. The newsletter was distributed among judicial NGOs, the Bar Association and the courts.

III. Training

In 1996, the Law Program continued its efforts at providing expert training to a number of target audiences, including NGOs, private and government lawyers, business associations, etc.

Legal Training Workshops on Bulgaria's Bankruptcy Laws, February 19-20, and 22-23

The workshops were co-organized by the Bulgarian Trustees Association (BTA), Bulgarian Bar Association (BBA), ABA/CEELI and CSD. These workshops were focused on how to conduct liquidation and reorganization cases under Bulgarian bankruptcy law. The workshops used hypothetical case studies of insolvent companies to illustrate the issues and steps necessary to commence, administer and close a bankruptcy case. Participants studied the differences between liquidation and reorganization cases, and the duties and responsibilities of bankruptcy trustees and judges, respectively. Instructors to the workshops were distinguished US

bankruptcy experts. The workshops were attended by private lawyers, government legal advisors and officials, banking executives and their legal advisors, judges and business people.

Seminar on Advocacy and Governmental Relations, February 9

This seminar was organized by ABA/CEELI, the Association of Democratic Trade Unions and CSD. It was focused on the specific skills and techniques needed by various associations and organizations to effectively advocate for issues that concern their members. The topics covered included preparation of a legislation action plan, building a grassroots organization, running a grassroots advocacy campaign and publicizing association's activities. Private lawyers, government legal advisors, policy makers, non-governmental and trade association officials attended this workshop.

Training Workshop on Organizational Visioning, Action Planning and Effective Teamwork, October 20

The roundtable was attended by representatives of NGOs and was monitored

by Dr. Michael Haverkamp, State Leadership Specialist and Associate Professor at the College of Human and Community Sciences, University of Nevada. The discussion was focused on negotiation techniques. The participants discussed issues like creating "win-win" strategies, conflicts resolutions, effective teamwork, action planning and the like.

VI. Publications

Issues in Bulgarian Law Series, Issue No. 6, April 1996: A Comparative Analysis of Bulgarian And USA Bankruptcy Laws by Sandra Mitchell, Esq., ABA/CEELI Liaison

This paper represents a comparison and overview from a Western perspective of US and Bulgarian bankruptcy laws. It covers the commencement of proceedings, procedure after petition is filed, property of the estate issues, debtor and creditors' claims, liquidation and reorganization. This paper was prepared after request of CSD, with a view to providing a starting point for a Westerner's understanding of Bulgarian bankruptcy law.

European Program

CSD's activities in the field of European policy studies started in early 1995 with the launching of the project *Europe 2000: Bulgaria and the European Union*. The work carried out under this project included a pioneering analysis of issues related to the implementation of the Europe Agreement between Bulgaria and the European Communities which entered into force in February 1995.

1995 PROGRAM HIGHLIGHTS:

- **Completed the first phase of the project Europe 2000: Bulgaria and the European Union;**
- **Hosted the Bulgarian Chapters of the Centre for European Policy Studies in Brussels;**
- **Translated the EU White Paper on the Integration of Central and East European Countries into the Internal Market of the Union.**

Over the past two years CSD's European Program developed into a comprehensive long term effort aimed at examining the opportunities and problems of Bulgaria's accession to the European political, economic and security structures. Having carried out extensive research and produced a number of policy analyses and recommendations in 1995, the main emphasis in the Program's 1996 activities was placed on encouraging an open public dialogue on the issues of integration. CSD's efforts in this respect were aimed both at assisting the policy debate on a bi-partisan basis, and expanding the discussions to involve the civil society institutions and the public in general.

I. Public Events

The public discussions organized in 1996 focused on three major topics:

- Trade policy
- The role of civil society in the process of European integration
- Foreign policy and security aspects of integration

Trade Policy

In view of the crucial importance of trade policy issues during the association period for Bulgaria, on April 13, CSD organized a conference *Trade Policy in the Context of Bulgaria's Integration into the European Union*. The conference was held to concur with the annual meeting of the EBRD in Sofia. Speakers were Mr. Atanas Paparizov, Minister of Trade and Foreign Economic Cooperation, Mr. Antonino Pitrone, Head of Sector, Economic and Trade Developments and Investment Promotion within DG IA, Unit B1 EU-CEC Relations of the European Commission, Mr. Borislav Georgiev, Deputy Minister of Trade and Foreign Economic Cooperation, and Dr. Dencho Georgiev, Chief Bulgarian GATT/WTO Negotiator.

In addition, Mr. Stanislav Daskalov, Director of the *Europe 2000* project, former Minister of Foreign Affairs and former chief negotiator for the conclusion of the Europe Agreement presented the project recommendations on trade pol-

icy. The recommendations called particularly for:

- placing a priority on negotiating free trade area agreements with the associated countries of CEE (Poland, the Czech Republic, Slovakia, Hungary, Romania and later Slovenia);
- increased efforts to achieve further opening of the EU market for Bulgarian products;
- the integration efforts to increasingly cover not only the government level but also the industry level. Cooperation between Bulgarian associations of sector industries, chambers of commerce, etc., and their partners in the EU should be encouraged.

Role of Civil Society in the Process of European Integration

CSD's efforts in the field of European integration include also an important segment on promoting the participation of NGOs in the process. Particularly important in this respect is the strengthening of the links between indigenous NGOs and the European Parliament. With a view of this objective, in 1996 CSD initiated a series of meetings between Members of the European Parliament and Bulgarian non-governmental organizations. The first meeting, on June 13, organized jointly with the Open Society Fund, Sofia discussed the *Role of Civil Society in the Process of European Integration*. The panel of speakers included Mr. Arie Oostlander, MEP and rapporteur to the European Parliament on the enlargement to the East, Mr. Philip Dimitrov and Mr. Ivailo Kalfin, Deputy Chairs of the Joint Parliamentary Committee EU-Bulgaria. Mr. Oostlander informed the participants about the discussion on his report at the European Parliament. The meeting was attended by representatives of leading Bulgarian NGOs involved in the integration process.

The next in this series of meetings — *Integration in the EU on the Agenda of the Civil Society in Bulgaria* — was held on July 22 on the eve of the Third Meeting of the Joint Parliamentary Committee EU — Bulgaria. Ms. Wilmya Zimmermann, Member of the European Parliament and representatives of leading Bulgarian NGOs exchanged views on the particular contribution which the non-governmental sector can make to the integration efforts as well as on the prospects of establishing closer contacts between Bulgarian NGOs and the European Parliament.

In view of the contribution these meetings have made to the process of European integration of Bulgaria they will be continued in 1997.

Foreign Policy and Security Aspects of Integration

The issues of the future place of Bulgaria in the new European security architecture figure prominently in the public debate in the country. Responding to the need for enhanced professionalism and openness of the debate, CSD held a number of conferences and seminars aimed at providing forum for dialogue involving the general public as well as experts and policy makers.

CSD considers the input of EU experts and policy makers into the debate to be of particular importance for the integration process. The first in the series of such meetings was held on February 7. Dr. Alyson Bailes, Head of Security Policy Department, Foreign Office of the UK, presented a lecture on *European and Regional Security* at CSD. Members of Parliament, government officials, NGO representatives and experts took part in the meeting.

The symposium *Bulgaria in the Future European Security Structure* was held on June 3. Mr. John Roper, Associate Fellow at the Royal Institute of International Affairs, London, and member of the



(left to right) Mr. Ivailo Kalfin and Mr. Philip Dimitrov, Deputy Chairs of the Joint Parliamentary Committee EU-Bulgaria, Dr. Arie Oostlander MEP, and Dr. Ognian Shentov discussed the Role of Civil Society in the Process of European Integration.

Second Carnegie Commission, and Dr. Fraser Cameron, Foreign Policy Adviser at DG IA3 of the European Commission made presentations at the seminar on the integration of the CEECs into the European security structure and on the relation between the common foreign and security policy (CFSP) and enlargement. Participants included Members of Parliament, heads of departments from the Ministry of Foreign Affairs and the Ministry of Defense, independent experts and NGO representatives.

In addition to discussions at the expert and policy-making level, the on-going debate about Bulgaria's future in the European security structures includes another important aspect relating to the general public opinion on these issues. With a view of addressing the quality of the information available to the public CSD held a seminar *NATO and the Bulgarian Society: Educational Aspects*.

The seminar participants, including government and NGO experts, and journalists, discussed different approaches to increasing the professionalism and impartiality of the debate in order to provide the general public with the opportunity to make an informed choice on these matters.

Another important aspect of the new European dimension of security is fostering democratic security communities in the countries of Central and Eastern Europe. In September 1996, the final course of the project *Security and Democracy in the New Europe 1996* was held at CSD. The project is a joint effort of CSD and the Centre for Defense Studies and the Department of War Studies at King's College, University of London as a leading partner, the Department of Defense Studies of University of Ljubljana, the Netherlands Institute for International Relations (Clingendael) and



Mr. John Roper (left), Dr. Ognian Shentov and Ambassador-at-large Todor Tchourov co-chaired the symposium Bulgaria in the Future European Security Structures in June.

the Hellenic Foundation for European and Foreign Policy (ELIAMEP). The course in Sofia was the concluding stage of a two-year project which resulted in the establishment of a network of security professionals from a number of Central and East European countries. Participants included experts from government institutions, NGOs, and journalists.

II. Policy Papers

The Third Meeting of the Joint Parliamentary Committee EU — Bulgaria was held in Sofia at the end of July. For this occasion, CSD developed several policy papers on matters included in the agenda of the meeting. The analysis in the papers was presented from the point of view of Bulgaria's obligations under the Europe Agreement and its general accession strategy. The papers included:

Legal Aspects of the Freedom of Expression in Bulgarian Electronic Media, by Georgi Sarakinov

The Media in Bulgaria, by Koprinka Tchervenкова, Editor-in-Chief, *Kultura* weekly

Human Resources and Social Policy, by Yordan Hristoskov, Social Policy Advisor to the President of the Republic
Movement of Capital and Payments, by Lyubomir Hristov, Advisor to the Executive Director of the World Bank

The papers provided important background analysis and information for the meeting since social issues and the civil society were prominent on the agenda.

Information and Documentation Centre of the Council of Europe

The Information and Documentation Centre of the Council of Europe in Sofia is part of a network of information centers in the member countries of Central and Eastern Europe. It was established as a joint initiative of the Council of Europe, the Bulgarian Ministry of Foreign Affairs and the Center for the Study of Democracy, and was inaugurated on December 13, 1993 by Ms. Catherine Lalumière, Secretary General of the Council of Europe, and Dr. Zhelyu Zhelev, President of the Republic of Bulgaria.

1993–1995 HIGHLIGHTS

- **Held over 30 seminars, lectures and workshops;**
- **Participated in two Council of Europe campaigns: the Youth Campaign Against Racism, Anti-Semitism, Xenophobia and Intolerance, and the Nature Conservation Year;**
- **Organized five public contests;**
- **Hosted three press conferences with members of the Bulgarian delegation to the Parliamentary Assembly of the Council of Europe;**
- **Issued over 10 translations and publications of Council of Europe documents, including the European Charter on the Protection of Human Rights and Fundamental Freedoms, and the Short Guide to it;**
- **Provided information and assistance to 5,000 visitors to the library;**
- **Developed a national information network comprised of 10 subnodes in major towns across the country.**

The purpose of the Information Centre is to assist the Council of Europe's activities in Bulgaria, aimed at promoting democratic values, pluralist democracy and the rule of law. The Centre provides information on the basis of a documentary collection and online link with the Council of Europe in Strasbourg. It offers assistance to Council of Europe-related activities of government bodies and non-governmental organizations and promotes the ideals and values of the Council of Europe by organizing conferences, seminars, lectures, round-table discussions, as well as press conferences, public awareness campaigns and other publicity events. The Information Centre publishes and distributes important Council of Europe docu-

ments in Bulgarian. Its activities cover a broad range of issues, including political co-operation, human rights, social issues, education, culture, sports, youth, mass media, and local self-government. In 1996, the focal points of the work of IDCCES included:

- the national information network
- the second year of the European Youth Campaign against Racism, Anti-Semitism, Xenophobia and Intolerance
- the European Social Charter
- the case law volume of the European Court on Human Rights

I. National Information Network

The national information network is presently well established and function-

ing, bringing Council of Europe materials closer to people outside the capital city. In 1996, all regional information units were supplied regularly with a selection of Council of Europe materials: documents, periodicals, leaflets and the publications of the Information and Documentation Centre, including the *European Convention on Human Rights* complete with explanatory materials (in Bulgarian), and the book *Roma, Gypsy, Travelers* (in Bulgarian).

II. European Youth Campaign Against Racism, Anti-Semitism, Xenophobia and Intolerance

Believing that the campaign would have little meaning if restricted to a single year of activities, the Information Centre organized a follow-up essay contest *Diversity Is Beautiful* for students aged 14-18. The contest was announced on the Media Action Day Against Racism on March 21, and received broad publicity on the national radio and in student periodicals. The results of the contest were announced on the national radio. Three awards were presented and all participants received small souvenirs from the IDCCES.

III. Seminars, Lectures, Discussions

On April 3, the IDCCES held a lecture for students at the Dutch College in Sofia on the topic *Bulgaria's European Integration: Problems and Prospects*, which included a presentation of a comparative analysis of Bulgarian and European law in the field of human rights.

The IDCCES provided support for and participated in a seminar on the European Social Charter on May 31.

In October, IDCCES organized a lecture by Professor Antonia Angelova for students of International Relations at the Slavic University. The topic of the lecture was the European Convention of Human Rights, and included a presen-

tation of a Council of Europe video film on human rights.

IDCCES provided support in the organization of the Conference on "Corruption and Organized Crime in States of Transition" in Sofia, December 12-13 under the Octopus project (a joint project of the Council of Europe and the Commission of the European Communities);

In addition, IDCCES provided support for and participated in the conference *Non-Judicial Means for the Promotion and Protection of Human Rights in Bulgaria*, December 17-18.

IV. Visits

- Visit of Ms. Marija Vrazivirska, Librarian at the Skopje Faculty of Law, in connection with the opening of an Information and Documentation Centre of the Council of Europe in Macedonia;
- Visit of Mr. Christophe Poirel, Media Secretary, Directorate of Human Rights;
- May 22-24: on-site meeting of IDCCE Directors in Warsaw;
- September 23-28, meeting of IDCCE Directors in Strasbourg;
- Visit of John Murray, Co-ordinator of Activities on Roma/Gypsies, Council of Europe.

V. Publicity Events

- In connection with the Media Action Day Against Racism, publicity materials were provided to journalists. This year the Media Action Day was given much more attention by the Bulgarian mass media owing, to a great extent, to the efforts of the IDCCES;
- April 19: Press launch of the book *Roma, Gypsy, Travelers* at IDCCES;
- April 24: Presentation of the book *Roma, Gypsy, Travelers* on the national radio;

- May 9: Interview of Ms. Janeta Shinkova on the Hristo Botev program of the national radio in connection with Europe Day.

VI. Publications

- Liegeois, Jean-Pierre. Roma, Gypsies, Travellers. S., IDCCE, 1996, 367 pp. ISBN 954-477-017-8
- European Convention on Human Rights. S., IDCCE, 1996, 67 pp.

VII. Other Initiatives

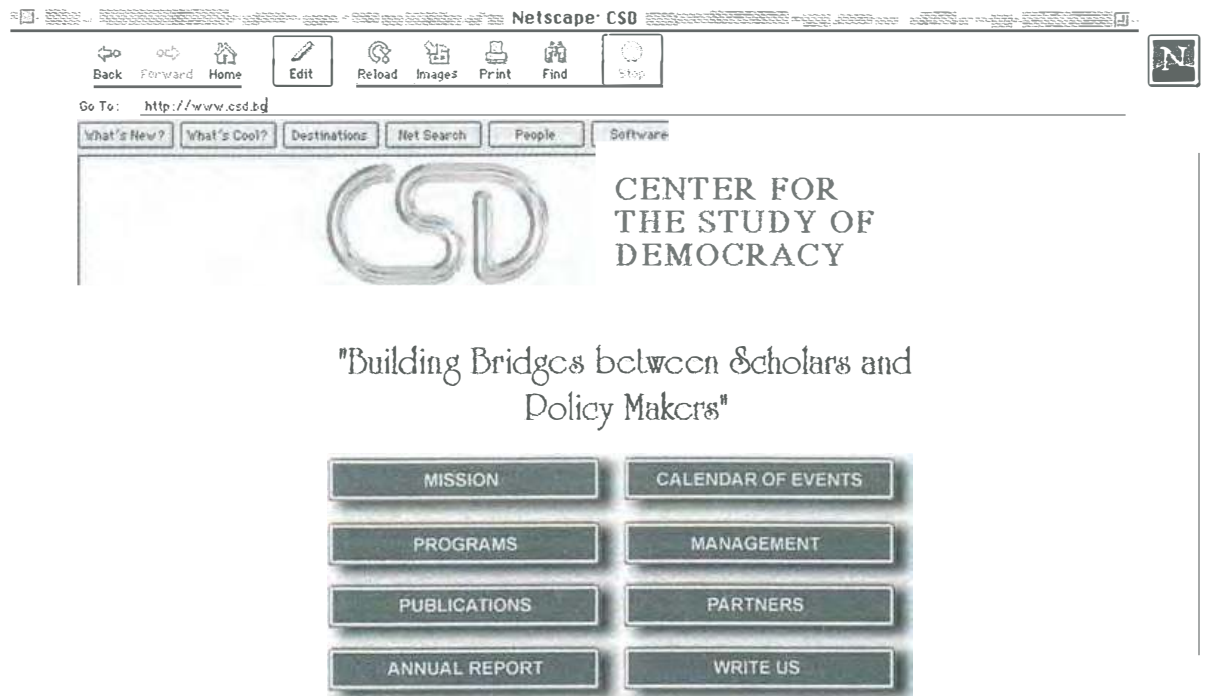
- In conjunction with the Center for the Study of Democracy, the IDCCES initiated the translation of the European Social Charter and a compatibility analysis.

The IDCCES started work on a project for the publication of a volume of case law of the European Court of Human Rights in Bulgarian. The digest will include 45 selected cases as well as reference instruments. The selection and editing is being done by a team of four outstanding experts consulted by Judge Dimitar Gochev, member of the European Court on Human Rights. The resulting volume will be a valuable tool for the entire legal community as well as for university lecturers of law, students and non-governmental organizations active in the field of human rights. It is due to come out at the beginning of September 1997 on the eve the fifth anniversary of the ECHR's coming into force in Bulgaria.



Mr. Boyko Todorov (right) was appointed Director of IDCCES in 1996.

The CSD home page is accessible on the World Wide Web at www.csd.bg.



Implementing Policy Change: Policy and Legal Environment for the Growth of the SME Sector in Bulgaria

In October, at the request of the representative of the United States Agency for International Development (USAID) in Sofia, CSD initiated a process to produce a recommendation paper addressing the policy and legal constraints facing small and medium size enterprises (SMEs) in Bulgaria, and to identify a set of possible solutions to encourage the growth of this key sector of the economy. The main purpose of this policy paper was to set out a specific and comprehensive agenda for an assistance program in this area.

Building upon its experience and extensive network of contacts, CSD started a process of development of the SME policy paper which consisted of two stages of consultations. Each stage was completed by a public discussion at CSD. The first stage included the initial drafting of the paper and consultations at the expert level. The second stage aimed at providing bi-partisan political support for the policy agenda outlined in the paper and endorsement of its priorities by policy makers from across the political spectrum.

I. The Process

1. Stage One: The Expert Level

Networking

At the outset of the drafting process, CSD put together two task force groups of experts to write the economic policy and legal sections of the paper. The final, monitoring section was initially drafted by CSD's Director of Research. With a view to adopting a comprehensive approach in the paper, CSD con-

tacted a number of Bulgarian and international institutions, involved in the development of SMEs, with a request to provide suggestions and comments to the paper. As a result, the paper reflected a variety of viewpoints and experience thus ensuring a consensus on its recommendations.

The first round of consultations was held at the expert and civil service level including independent experts, deputy ministers and heads of ministerial departments, representatives of other government agencies and leaders of business associations. The paper was presented to over 50 experts and government agencies, business associations, research NGOs, trade unions, international and foreign donor organizations and individual SMEs. Special attention was devoted to including the perspective of Bulgaria integration to the European Union, particularly the provisions on SMEs in the Europe Agreement and the EU definition of SMEs.

The Policy Workshop

The first stage of consultations was completed by a policy workshop held on November 20, at CSD with representatives of the organizations involved in the preliminary consultations. Following an introductory plenary session, the workshop continued in two separate sessions — on economic policy and on the legal and institutional environment. The discussions were moderated by members of the task force. A final plenary session was devoted to the discussion of a monitoring system presented by Alexander Stoyanov, CSD Director of Research.

2. Stage Two: the Policy Makers Level

Networking

Following the workshop discussions, members of the task force groups and CSD experts held individual meetings with a number of policy makers who had been invited to participate in the forthcoming Policy Forum. The draft paper, amended as a result of the expert discussion, had been circulated in advance together with some background information about the objectives of the Forum. During the meetings, the experts provided additional clarification on the action lines as well as on the overall context of the drafting exercise. Believing that in order for the paper to provide an agenda of a feasible long term assistance program it needs to enjoy widespread support among politicians and the business community, CSD

consulted representatives of the major parliamentary parties, the government, the governor of the National Bank, leaders of business associations and trade unions to comment on the paper and take part in the forum discussions. By enlisting the support of key political figures and institutions in advance of the Forum, CSD managed to build a consensus for the agenda which is a key prerequisite for its successful implementation.

The Policy Forum

The policy forum was held on November 29 at the conference hall of CSD. Following some introductory remarks by CSD's President, Dr. Ognian Shentov, Mr. John Tennant, USAID Representative and Ms. Rose Likins, Charge d'Affaires at the US Embassy presented the Implementing Policy Change Program. In his address to the Forum, Mr. Petar



(left to right) USAID Representative Mr. John Tennant, President-elect of the Republic Petar Stoyanov, Ms. Rose Likins, Chargé d'Affaires of the US Embassy to Bulgaria and Dr. Ognian Shentov presided the SME policy forum.

Stoyanov, President-elect of the Republic of Bulgaria, expressed his support for a program encouraging the development of the private sector in Bulgaria, and particularly SMEs.

The first session of the forum was chaired jointly by Mr. Atanas Papparizov, Minister of Trade and Foreign Economic Cooperation and Dr. George Prohaski, Executive Director of the Open Society Fund-Sofia and discussed the economic policy recommendations of the paper. The second session, dealing with the policy and legal environment for SMEs was chaired by Mr. Atanas Zhelezchev, Deputy Chair of the National Assembly. The concluding part of the forum included a presentation by Mr. Alexander Stoyanov and Professor Zahari Karamfilov, Chairman of the National Institute of Statistics on a system monitoring the state of the SME sector and the implementation of the policy agenda outlined in the paper.

II. The Paper

Three sets of recommendations (“action lines”) are presented in the paper:

- economic policy;
- legal and institutional framework;
- monitoring system.

Economic Policy Recommendations

The economic destabilization and deterioration of the Bulgarian business environment has seriously restricted the development of the SME sector. While such macro-economic failures affect all private enterprises, the impact on the SME sector is compounded due to its general inability to access capital and information. The policy paper is intended to provide a guideline for officials to adhere to when developing the overall plan for the country so that the proper recognition of the important role of SMEs in the development of the Bulgarian economy is included. The success

of Bulgaria’s SME sector is essential to the development of the economy as a whole. Foremost, SMEs are capable of creating many new jobs at low costs. These jobs will be necessary to absorb new unemployment created by restructuring formerly state-owned enterprises.

The paper identifies a set of action lines aimed at providing a basis for a comprehensive and coherent action plan for promoting the growth of this key sector of the economy. The first group of action lines addresses the development of the SME sector vis-a-vis the stabilization and improvement of the Bulgarian economy including:

- development of an anti-crisis program;
- development of a strategy for accelerated, full-scale privatization;
- development of a national strategy for mobilizing domestic investment and attracting foreign capital;
- implementation of measures designed to increase the absorption capacity of the country with respect to international SME support programs;
- tax measures;
- actions against shadow economic and criminal activities.

Further, recommendations focus on implementing a consistent, long term strategy for the creation of the appropriate environment to promote SME development and for the attainment of competitive power and European standards. In particular, the actions foresee:

- building of an institutional infrastructure for encouraging and supporting SMEs;
- implementation of a consistent policy of support measures and relieves for SMEs;
- development of a program for the financial assistance and relief;
- development of a foreign economic policy for the attraction of government support for the SME sector.

Recommendations to Improve the Legal and Institutional Environment

This action line includes recommendations aimed at:

- improving the implementation of existing laws affecting small and medium size enterprises;
- drafting additional laws for SMEs;
- improving the institutional framework for small and medium size enterprises and enhancing the institutional efficiency.

The Bulgarian Parliament has passed a number of laws relevant to the activity of SMEs that have not been effectively implemented. Failure to implement the laws has been due to lack of relevant experience among implementing officials and representatives of SMEs, the lack of institutional framework to support the laws and legally fixed implementation procedures that slow down the process. In all such cases, SMEs suffer due to the inability of institutions and the private sector to implement, or act under, laws that are the result of already existing political consensus in society. Thus, appropriate actions should be taken towards implementing existing and non-implemented legislation with each sector, private and public, doing their part to become educated about how new laws function in order to obtain the desired results.

Furthermore, regardless of many steps taken towards creating an enabling environment for SMEs, there are still a number of laws that need to be drafted in the near future. In drafting such laws, special attention should be paid to two factors:

- stability of the legal system should be preserved as much as possible in this process which implies change and motion;
- special attention should be paid to prevent the passage of retroactive legislation which represents the worst form of legal instability.

Particularly, new legislation should take into consideration that Bulgaria has

signed an Association Agreement with the European Union and has adopted a policy towards approximation of its internal legislation with EU law. The paper does not intend to propose an exhaustive list of laws that need to be drafted in order for the legal framework for SMEs to be completed but rather to suggest important pieces of legislation which are necessary for the development of the SME sector. These include foreclosure, leasing, consumer protection, electronic commerce, trade mark, government procurement legislation, as well as specialized SME legislation.

Finally, this action line proposes measures to improve institutional efficiency. In many cases high quality legislation fails to have a positive impact on the relationships governed by it. This is due primarily to inefficient and non-uniform implementation by the relevant agencies. Thus the paper proposes the creation of standardized operating procedures, including the use of standardized forms.

Monitoring System

In light of the proposed recommendations, a monitoring system is of principal importance for the success of an SME development strategy. The objective of this action line is to design and implement a comprehensive monitoring system to determine whether or not policy recommendations are being administered and enforced and, ultimately, if the desired level of success has been achieved. The system would perform at least two functions:

- to monitor the direct impact of policy decisions and to assess the effectiveness of policy change efforts in the SME sector;
- to provide relevant vehicles (based on analyses and relevant data) to decision makers that would both inform them of developments in the SME sector and provide support for policy change.

The paper is published in both English and Bulgarian.

International Business Club

The International Business Club (IBC) is a joint initiative of CSD and the Ministry of Trade. It was formally inaugurated on June 17, 1993 by Mr. Valentin Karabashev, Deputy Prime Minister and Minister of Trade, in the presence of ambassadors, diplomats and trade envoys to Bulgaria, along with bankers, and managers of local and international companies.

- The principal objective of IBC is to encourage business contacts, to popularize business opportunities in Bulgaria, and to promote a favorable development of trade and foreign investment. Since its conception in 1993, IBC has organized 26 breakfast meetings to which it has invited cabinet ministers, MPs, managers of financial institutions and private businesses as guest speakers. The speakers of the IBC meetings in 1996 were:

- Mr. Lyubomir Filipov, Governor of the Bulgarian National Bank, on February 22;
- Mr. Stefan Sofyanski, Mayor of Sofia on April 5;
- Dr. Lyubomir Dachev, Deputy Minister of Education, Science and Technology, on April 14;
- Professor Zakhari Karamfilov, Chairman of the National Statistical Institute, on June 6;
- Mr. Vesselin Blagoev, Executive Director, Privatization Agency, on October 18.

Members of 42 diplomatic and trade missions to Bulgaria, along with 10 international organizations and foreign companies based in Sofia have attended the International Business Club to date. Bulgarian businessmen and bankers are regular visitors too.



Sofia Mayor Mr. Stefan Sofyanski (left) spoke before the International Business Club members in April.

Book Donation

Since 1989, western literature and expertise have been in great demand in Bulgaria. At the same time, schools, libraries and individual students cannot afford to buy books published abroad. Over the past five years, the CSD's Book Donation initiative has become very popular in Bulgaria. Thousands of recipients eagerly await the distribution of each shipment of books.

Total Number of Books Donated in 1991–1996

Over 154,000 books and textbooks

Market Value of Books Donated in 1991 — 1996

More than \$4 million

Number of Recipients in 1991 — 1996

Over 350 institutions and 6800 individuals

- universities and high schools
- secondary and professional schools
- research institutions
- public libraries
- hospitals and health centers
- public organizations
- NGO's (association, foundations, unions, etc.)
- students
- medical doctors
- researchers and university professors
- engineers and technicians
- economists
- others

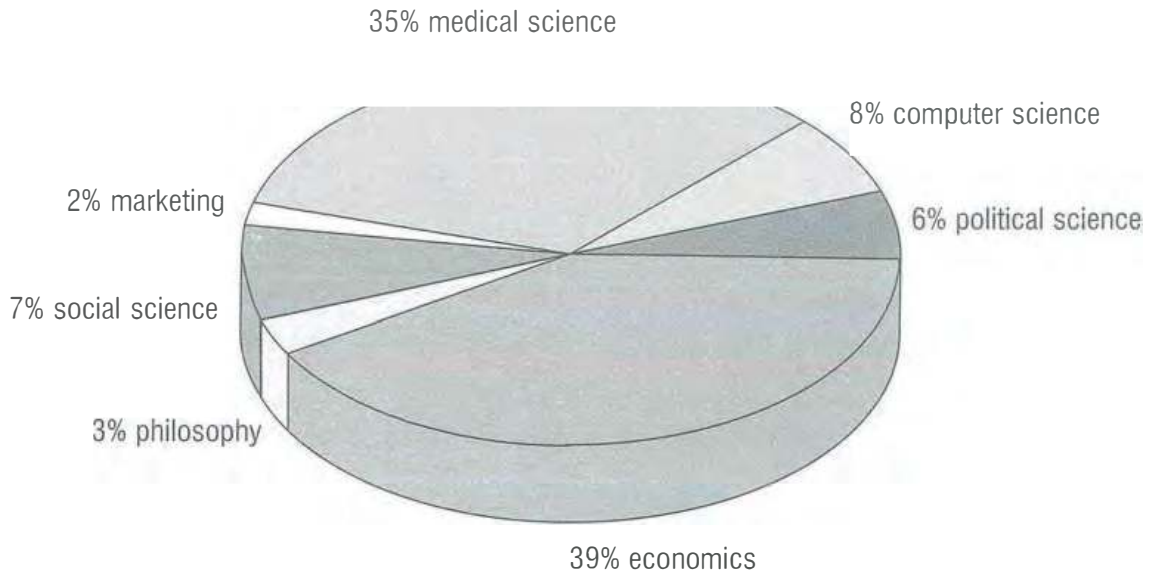
CSD started its book donation activities as an official partner to the US Sabre Foundation in November 1990. The Sabre Foundation collects university level textbooks and other specialized books published in the United States within the previous three or four years, and ships them to Bulgaria for free distribution. For its part, CSD is responsible for selecting the most useful and relevant titles for Bulgaria. The books are then processed and distributed to universities, research institutes, secondary schools, public libraries, hospitals and health centers, and to thousands of individual recipients. The Open Society Fund, Sofia contributes to the cost of

book processing and distribution.

The distribution of the tenth shipment of books donated by the Sabre Foundation continued over the first months of 1996. This shipment consisted of 9,000 volumes of mostly medical books worth \$500,000. An official exposition of donated medical books was held at the Central Medical Library in Sofia in November. Similar events were staged at medical universities and larger hospitals in Sofia and other regional centers across the country.

The next shipment arrived in June. It included 20,000 volumes of over 500 titles in economics, political science, literature, environmental studies, philoso-

Distribution of Donated Books by Subject Area



phy, technical science, law, history, computer and applied science. Some of the major recipients included the Central Library of the Bulgarian Academy of Sciences, the Library of the National Information and Documentation Center, the City Library in Plovdiv and technical universities.

In July CSD received the twelfth shipment of medical books by the Lippincott publishing house of US The publishers

provided a list of 250 titles out of which CSD consultants selected 25. The first official exposition of Lippincott medical books was held at the Queen Ioanna University Hospital in July. Followed expositions at the Central Library of the Medical Academy and the library of the "Lozenetz" clinic in Sofia. A large number of books were donated to medical doctors and students. The distribution process will continue into 1997.

Part Two
Organization and Management

Administration and Management

In 1996, CSD engaged 52 staff of which 35 professional, including part-time consultants, and 17 support. The high quality and dedication of all of its staff certainly made possible the results achieved. Proper financial management and accurate recordkeeping contributed to the Center' overall efficiency and control. The financial and administrative regulations, adopted in 1994, were revised and updated to include a special chapter on Personnel Policy Procedures. The external audit for 1996 was commissioned to Price Waterhouse; their independent opinion and CSD's financial statements follow.

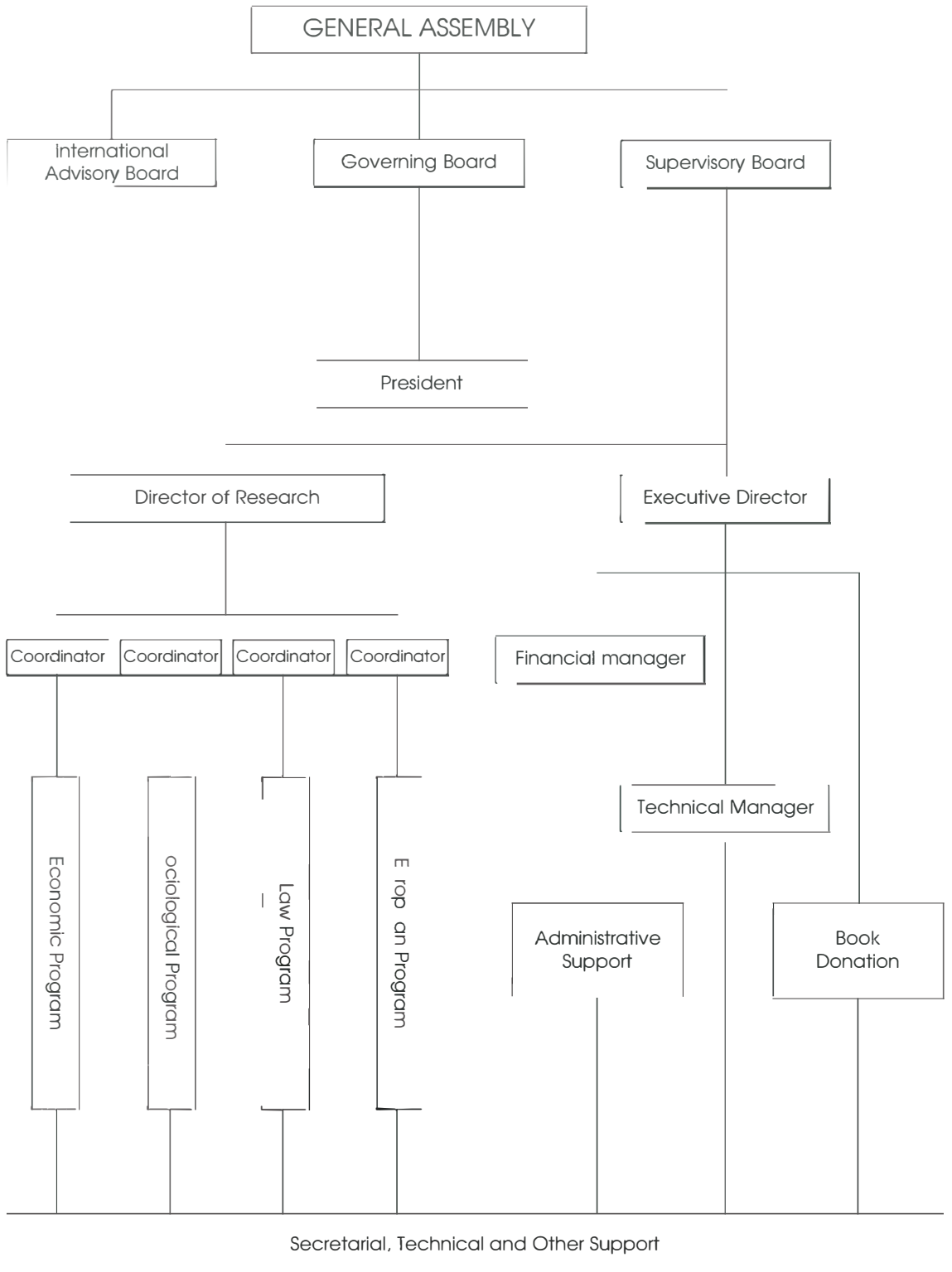
Having realized the importance of auditing in strengthening the institutional capacity of non-governmental organizations, CSD continued its series of training and education activities on financial management of NGOs in 1996.

By sharing its own experience and knowledge in this field with the NGO community in the country, CSD hopes to enhance the competence, capability, profile and influence of these organizations as agents of democratic change in Bulgarian society.

CSD is particularly conscious about streamlining its organizational structure and internal communication. Senior staff members and project coordinators continued to meet on a weekly basis.

In 1996 CSD's Programs were linked in a local area network which resulted in improved interdepartmental communication and organizational cohesion. Fifteen new computers were procured during the year. Access to the Internet was established via Global One and it is continuously being upgraded.

Organizational Chart



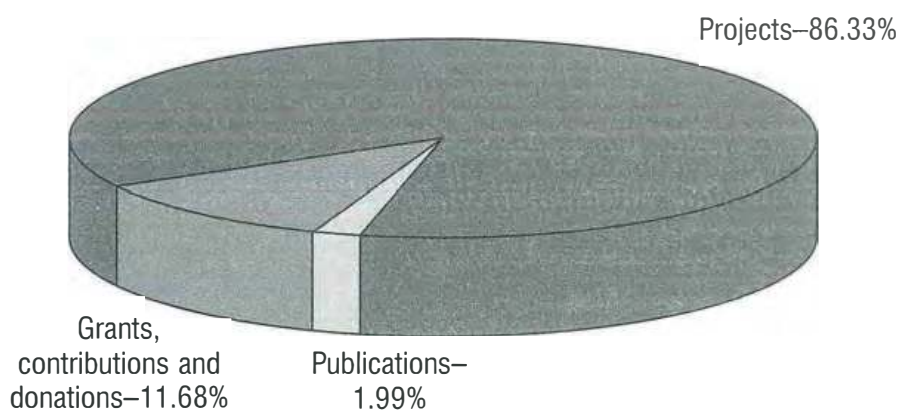
Finance

CSD's financial performance in 1996 was very good. The majority of its funds were received in foreign currency and converted to local currency only as required. This prevented the loss of purchasing power caused by inflation to a very large extent.

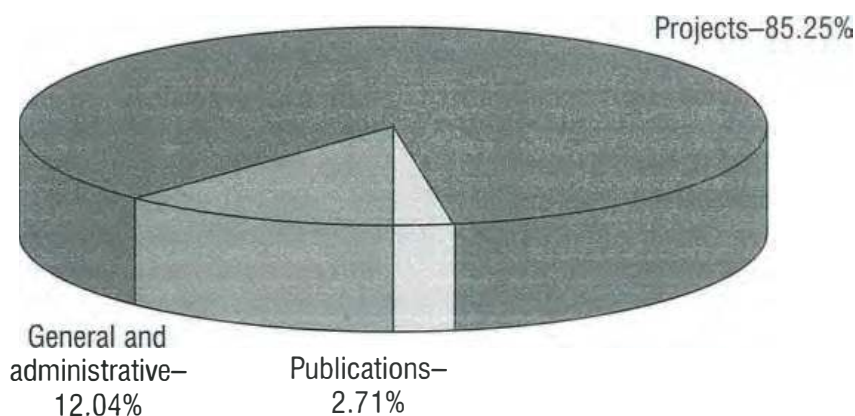
The Center's long-term plan towards sustainability includes consolidation of its structure and systems. The acquisi-

tion of its premises and information technology equipment are a fundamental part of this plan. In 1996, CSD contributed all of its excess at the year-end to the Endowment Fund, established in 1994. CSD also invited its sponsors to make contributions towards the Fund, thus encouraging self-support and long-term planning of its activities and institutional growth.

SUPPORT AND REVENUE



EXPENSES



List of Senior Staff

Governing Board

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

Senior Staff

Lidia Mileva, Financial Manager
Nickolay Badinski, Technical Director



CSD's Financial Manager Ms. Lydia Mileva, Executive Director Mr. Vladimir Yordanov and Director of Research Mr. Alexander Stoyanov.

List of Professional Staff by Programs

Economic Program

Maria Prohaska, PhD, Coordinator
Daniela Bobeva, PhD, Project Coordinator
Dimitar Batchvarov, Senior Fellow
Yordan Markov, Research Fellow
Vassil Hristov, Research Fellow
Yanna Adamichina, Program Assistant

Law Reform Program

Stephan Kyutchukov, Coordinator
Marussia Russeva, Secretary
Dessislava Bijeva, Research Fellow
Konstantin Tanev, Research Fellow
Jerri Coletti, Country Director, IRIS-Bulgaria
Todor Todorov, Project Coordinator, IRIS-Bulgaria
Vera Zdravkova, Office Coordinator, IRIS-Bulgaria
Glenn Levine, ABA/CEELI Liaison
Oliver Seikel, ABA/CEELI Liaison



Vitosha Research / Sociological Program

Andrei Nonchev, Coordinator
V. Lynn Baucom, Senior Research Associate
Robert Madison, Senior Research Fellow
Margarita Pavlikianova, Research Associate
Delyana Koleva, Research Associate
Ivayla Tasseva, Research Associate
Tihomir Bezlov, Research Associate
Bogdana Dermendjieva, Office Manager

European Program

Boyko Todorov, Coordinator
Stanislav Daskalov, Director, Europe 2000 Project
Emil E. Georgiev, Director, IDCCES
Maria Donkova, Librarian
Zhaneta Shinkova, Assistant
Boyan Gjuzelev, Research Fellow

International Business Club

Dinka Dinkova, Secretary

Administration

Roumyana Apostolova, Office Manager
Maroussia Koli, Office Manager
Mariana Yankova, Administrative Secretary
Joanna Staleva, Coordinator, Book Donation
Krastina Nedeva, Coordinator, Book Donation
Zoya Simova, Accountant
Lazarina Andonova, Cashier/Bookkeeper
Aneta Dencheva, Assistant

General Assembly

Alexander Stoyanov, Assistant Professor, University of National and World Economy, Sofia, and Director of Research, Center for the Study of Democracy

Andrey Ivanov, PhD, Expert, Foreign Policy Commission, National Assembly

Blagovest Georgiev, PhD, Associate Professor, Department of Sociology, Sofia University

Evgenii Dainov, PhD, Editor-in-Chief, Insider magazine

George Prohasky, PhD, Executive Director, Open Society Fund - Sofia

Inko Razpopov, PhD, General Manager, Atlantic Agency

Mois Faion, PhD, Business Development Manager, Metromedia International Telecommunications, Stamford, U.S.

Ognian Shentov, PhD, President, Center for the Study of Democracy

Tihomir Bezlov, Research Fellow, Center for the Study of Democracy

Vladimir Yordanov, Executive Director, Center for the Study of Democracy

International Advisory Board

Arie M. Oostlander, Member of the European Parliament

Elias Dias, Professor, Department of Philosophy of Law at the Autonomous University and Director of *Sistema* journal, Madrid

Franz-Lothar Altman, Deputy Director, Suedost-Institut, Munich

Giovanni Sartori, The Albert Schweizer Professor in the Humanities, Columbia University, New York

James Fishkin, Professor, Darrel K. Royal Regents Chair in Government, Law and Philosophy, University of Texas at Austin

John Roper, Fellow, Royal Institute for International Affairs, London

Juan Linz, Professor, Department of Political Studies, Yale University

Margot Light, Department of International Relations at the London School of Economics and Political Science

Michael Branch, Director, School of Slavonic and East European Studies, London

Michael Katz, Director, Center for Post-Soviet and East European Studies, University of Texas at Austin

Pasquale Ferraro, Deputy Director, International Development Law Institute, Rome

Walter Raymond, Jr., Program Director, US Association of Former Members of Congress

William Meyer, Esq., Central and East European Law Initiative, American Bar Association

Sources of Support and Cooperation

Bulgarian Ministry of Foreign Affairs
Butler University, Indianapolis, Indiana
Center for International Private Enterprise, Washington, DC
Central and East European Law Initiative of the American Bar Association
Centre for European Policy Studies, Brussels
Charities Aid Foundation, London
Charles Stewart Mott Foundation
Civil Society Development Foundation, Sofia
Constitutional and Legislative Policy Institute, Hungary
Council of Europe
Delegation of the Commission of the European Communities, Sofia
Dutch Ministry of Foreign Affairs
European Commission, Directorate General XII
Glasgow University
Hanns Seidel Foundation, Sofia
Institutional Reform and the Informal Sector, University of Maryland
International Center for Economic Growth
International Center for Not-for-Profit Law, Washington, D.C.
International Development Law Institute, Rome
Interrights, London
Japan International Cooperation Agency
King's College, University of London
Max-Plank-Institute fuer Auslaendisches
und Internationales Privatrecht, Hamburg
MBA Enterprise Corps
National Forum Foundation
Open Media Research Institute
Open Society Foundation, Sofia
Sabre Foundation
School of Slavonic and East European Studies, London
Suedost-Institut, Munich
United States Agency for International Development
United States Chamber of Commerce
United States Information Agency Office of Research
World Bank

Part Three
Financial Review

**CENTER FOR THE STUDY OF DEMOCRACY
FINANCIAL STATEMENTS
31 DECEMBER 1996**

Price Waterhouse



REPORT OF THE AUDITORS TO CENTER FOR THE STUDY OF DEMOCRACY

We have audited the accompanying balance sheet of Center for the Study of Democracy (hereafter "CSD") as at 31 December 1996 and the related statements of income and expenditure and cash flow statement for the year then ended. These financial statements are the responsibility of CSD management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As explained in note 2 and consistent with other entities in Bulgaria, International Accounting Standard No 29 "Financial Reporting in Hyper-inflationary Economies" has not been applied despite the hyper-inflationary environment in Bulgaria.

In our opinion, except for the matter discussed in the third paragraph of this report the accompanying financial statements present fairly in all material respects, the financial position of CSD at 31 December 1996 and the result of its operations and cash flows stated in Bulgarian Leva for the year then ended in conformity with International Accounting Standards and the CSD accounting policy and statutes.

Price Waterhouse
Sofia, Bulgaria

19 May 1997

CENTER FOR THE STUDY OF DEMOCRACY

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1996

| | <u>Note</u> | 1996 Leva'000 | 1995 Leva'000 |
|--|-------------|------------------|------------------|
| Support and Revenue | | | |
| Grants, Contributions and Donations | | 9,856 | 6,147 |
| Projects | | 72,793 | 44,233 |
| Publications | | <u>1,668</u> | <u>247</u> |
| | | 84,317 | 50,627 |
| Expenses | | | |
| Projects | | 52,458 | 36,207 |
| Publications | | 1,670 | 246 |
| General and administrative | | <u>7,408</u> | <u>4,430</u> |
| | | 61,536 | 40,883 |
| Other income | 3 | <u>154,601</u> | <u>2,762</u> |
| Excess of income over expenditure | | 177,382 | 12,506 |
| Fund balance at the beginning of the year | | 7,683 | 17,177 |
| Transferred to Endowment fund | | <u>(185,065)</u> | <u>(22,000)</u> |
| Unrestricted fund balance at the end of the year | | | 7,683 |

The accompanying notes are an integral part of these financial statements.

CENTER FOR THE STUDY OF DEMOCRACY

BALANCE SHEET 31 DECEMBER 1996

| | <u>Note</u> | 1996 Leva'000 | 1995 Leva'000 |
|---|-------------|------------------|------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash at bank and in hand | 4 | 206,653 | 20,771 |
| Prepayments | | 214 | 69 |
| Receivables | 5 | <u>35,676</u> | <u>7,139</u> |
| | | <u>242,543</u> | <u>27,979</u> |
| Fixed assets | | | |
| Investments | 6 | 8,557 | 8,735 |
| | | <u>286</u> | 286 |
| | | <u>8,843</u> | <u>9,021</u> |
| Total assets | | 251,386 | 37,000 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Current liabilities | | | |
| Accounts payable | | 35,805 | 2,016 |
| Deferred revenue | | <u>6,969</u> | <u>4,906</u> |
| | | 42,774 | 6,922 |
| Long-term liabilities | 7 | <u>1,547</u> | <u>395</u> |
| Total liabilities | | 44,321 | 7,317 |
| Fund balances | | | |
| Unrestricted | | | 7,683 |
| Restricted | | <u>207,065</u> | <u>22,000</u> |
| Total fund balances | | 207,065 | 29,683 |
| Total liabilities and fund balances | | <u>251,386</u> | <u>37,000</u> |

The accompanying notes are an integral part of these financial statements.

CENTER FOR THE STUDY OF DEMOCRACY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 1996**

| | Note | 1996 Leva'000 | 1995 <u>Leva'000</u> |
|--|------|------------------|-------------------------|
| Net cash in\outflow from operating activities | 9 | 187,407 | 11,358 |
| Net cash from investing activities | | | |
| Net purchase of tangible fixed assets | | (2,676) | (7,260) |
| Proceeds on sale of fixed assets | | | 60 |
| Net cash from financing activities | | | |
| Increase\ (decrease) in deferred capital subsidies | | <u>1,151</u> | <u>(200)</u> |
| Increase in cash and cash equivalents | | 185,882 | 3,958 |
| Cash at the beginning of the year | | <u>20,771</u> | <u>16,813</u> |
| Cash at the end of the year | 4 | 206,653 | <u>20,771</u> |

The accompanying notes are an integral part of these financial statements.

CENTER FOR THE STUDY OF DEMOCRACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

1 Principal activities

The Center for the Study of Democracy (hereafter "CSD" or the "Center") is an independent not for profit, public policy research organisation founded in late 1989.

Its main activities are concentrated in the organisation and operation of programs including economic, law reform, sociological and information resources aiming at speeding up the market oriented development of the Bulgarian economy and democratisation of the Bulgarian society. The programs are financed by West European and American not for profit organisations, governmental institutions and private companies such as American Bar Association, Center for International Private Enterprise (U.S.A.), Commission of the European Communities, Council of Europe, C. S. Mott Foundation, Hanns Seidel Foundation (Germany), International Center for Economic Growth, US Agency for International Development and World Bank.

Other activities include publishing of materials and distribution.

2 Principal Accounting Policies

CSD's accounting policies are established in compliance with the Bulgarian Accountancy Act, the Bulgarian National Accounting Standards, and the United States Circular A-133 Standard concerning "grants and agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations", as well as with the requirements set under Standard A-122 (Cost Principles for Nonprofit Organizations).

Revenue recognition

The Center's revenue arises from its activities relating to projects financed by third parties. The activity can be divided into the following types:

- restricted funds, representing funding for specific projects; and
- unrestricted funds for general expenditures and maintenance.

Project revenue is recognised based upon stipulations and duration of the contract with the organisation requesting the project. Project revenue can be recognised upon completion of a stage in the project or upon completion of the project and submission of the final report.

At the end of each year a review of each project is performed. Amounts received in excess of the estimated work performed are deferred and disclosed in the balance sheet as part of deferred revenue. The estimated value of work

CENTER FOR THE STUDY OF DEMOCRACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

performed in excess of the amounts received is recorded as project receivables thus matching concept is being observed.

Revenue earned from the act of publishing and distributing of books is recognised at the point of sale.

Taxation

The CSD is a not for profit organisation and is exempt from corporate taxation and VAT on its not for profit activities.

Foreign currency

Transactions in other currencies have been translated into Bulgarian Leva at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Bulgarian Leva at the exchange rate ruling at that date. All resulting exchange differences are recognised in arriving at the result for the year and are disclosed in other income (expense). Foreign currency accounts are maintained by using the FIFO method.

USD to Leva foreign exchange rates were the following for the respective periods:

| | |
|------------------|---------|
| At 31.12.1995 | 70,704 |
| At 31.12.1996 | 487,350 |
| Average for 1995 | 68 |
| Average for 1996 | 178 |

Inflation accounting

Consistent with other entities operating in Bulgaria, International Accounting Standard No 29 "Financial Reporting in Hyper-inflationary Economics" has not been applied despite the hyper-inflationary environment, as defined by IAS 29, in Bulgaria. The annualised rate of inflation for 1996 was 311% (1995 32.9%).

The effect of performing hyperinflation adjustments would be to increase the value of the non-monetary balances of the organisation to account for the loss in purchasing power as a result of inflation. However the majority of the organisations funds are received in foreign currency and converted to local currency only as required. The loss of purchasing power caused by inflation is therefore substantially avoided.

CENTER FOR THE STUDY OF DEMOCRACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

2 Principal Accounting Policies (Continued)

Related party transactions

The Center for the Study of Democracy has had transactions with the Applied Research and Communications Fund (ARC) during 1996. The two have different members of the Board of Directors, different operational employees but occupy the same premises. Amounts receivable from and payable to the ARC as at 31 December 1996 are Nil.

3 Other income

Other income in Leva'000 for the period included the following:

| | Realized | <u>Unrealized</u> | Total 1996 | Total 1995 |
|-------------------------|-----------------|--------------------------|-------------------|-------------------|
| Foreign exchange gains | 32,484 | 146,457 | 178,941 | 5,215 |
| Foreign exchange losses | (170) | (24,673) | (24,843) | (3,185) |
| Interest income | 1,725 | | 1,725 | 698 |
| Other income (expense) | <u>(1,223)</u> | — | <u>(1,221)</u> | 34 |
| Total | <u>32,816</u> | <u>121,784</u> | <u>154,601</u> | <u>2,762</u> |

4 Cash at bank and in hand

| | 1996 | 1995 |
|-------------------------------|------------------------|------------------------|
| | <u>Leva'000</u> | <u>Leva'000</u> |
| Deposits-foreign currency | 16,115 | 7,682 |
| Deposits-Leva | 247 | 50 |
| Cash at bank-foreign currency | 180,824 | 11,125 |
| Cash at bank-Leva | 436 | 1,400 |
| Cash in hand-foreign currency | 8,010 | 389 |
| Cash in hand-Leva | 1,021 | 125 |
| | <u>206,653</u> | <u>20,771</u> |

CENTER FOR THE STUDY OF DEMOCRACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

5 Receivables

| | 1996 | 1995 |
|-----------------------|-----------------|-----------------|
| | Leva'000 | Leva'000 |
| Other receivables | 14,376 | 3,015 |
| Investment receivable | 230 | 230 |
| Project receivable | <u>21,070</u> | <u>3 894</u> |
| | <u>35,676</u> | <u>7,139</u> |

6 Fixed assets

The Center acquires its fixed assets through purchases with its own funds or by obtaining the fixed assets upon the completion of projects. Assets are valued on the basis of acquisition cost and are shown at cost less accumulated depreciation. Depreciation is charged on a straight-line basis and the following rates are applied:

| | |
|--------------------------------|-----|
| Machinery and equipment | 20% |
| Vehicles | 20% |
| Office furniture and equipment | 25% |
| Software | 20% |

The activity for tangible assets for 1996 is as follows:

| | 1996 |
|--------------------------|-----------------|
| | Leva'000 |
| Cost or valuation | |
| At 1 January 1996 | 12,416 |
| Additions | 2,676 |
| Disposals | <u>(880)</u> |
| At 31 December 1996 | <u>14,212</u> |
| Accumulated Depreciation | |
| At 1 January 1996 | 3,681 |
| Charge for the year | 2,793 |
| Less disposal | <u>(819)</u> |
| At 31 December 1996 | <u>5,655</u> |
| Net book value | |
| At 31 December 1996 | <u>8,557</u> |

CENTER FOR THE STUDY OF DEMOCRACY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)**

7 Long-term liabilities

| | 1996 | 1995 |
|----------------------------|------------------------|------------------------|
| | <u>Leva'000</u> | <u>Leva'000</u> |
| Deferred capital subsidies | 1,547 | |

Deferred capital subsidies consist of the remaining balance of funds received for specific projects.

8 Reconciliation between local statutory reporting and these financial statements

| | <u>Leva'000</u> |
|--|------------------------|
| Surplus for the year per local statutory reporting | 55,598 |
| Adjustments for recognition of unrealised gains (losses) on amounts held in foreign currency as follows: | |
| Cash | 131,144 |
| Receivables and deferred expenses | (958) |
| Liabilities | <u>(8,402)</u> |
| Surplus per IAS financial statements | <u>177,382</u> |

9 Reconciliation of excess of income over expenditure to net cash outflow from operating activities.

| | 1996 | 1995 |
|---|------------------------|-----------------------|
| | <u>Leva'000</u> | <u>Leva'00</u> |
| Excess of income over expenditure | 177,382 | 12,506 |
| Depreciation | 2,793 | 1,840 |
| Loss on sale of fixed assets | 62 | 52 |
| Increase of receivables and deferred expenses | (28,682) | (2,017) |
| Increase\ (decrease) of payables | <u>35,852</u> | <u>(1,023)</u> |
| Net cash from operating activities | <u>187,407</u> | <u>11,358</u> |