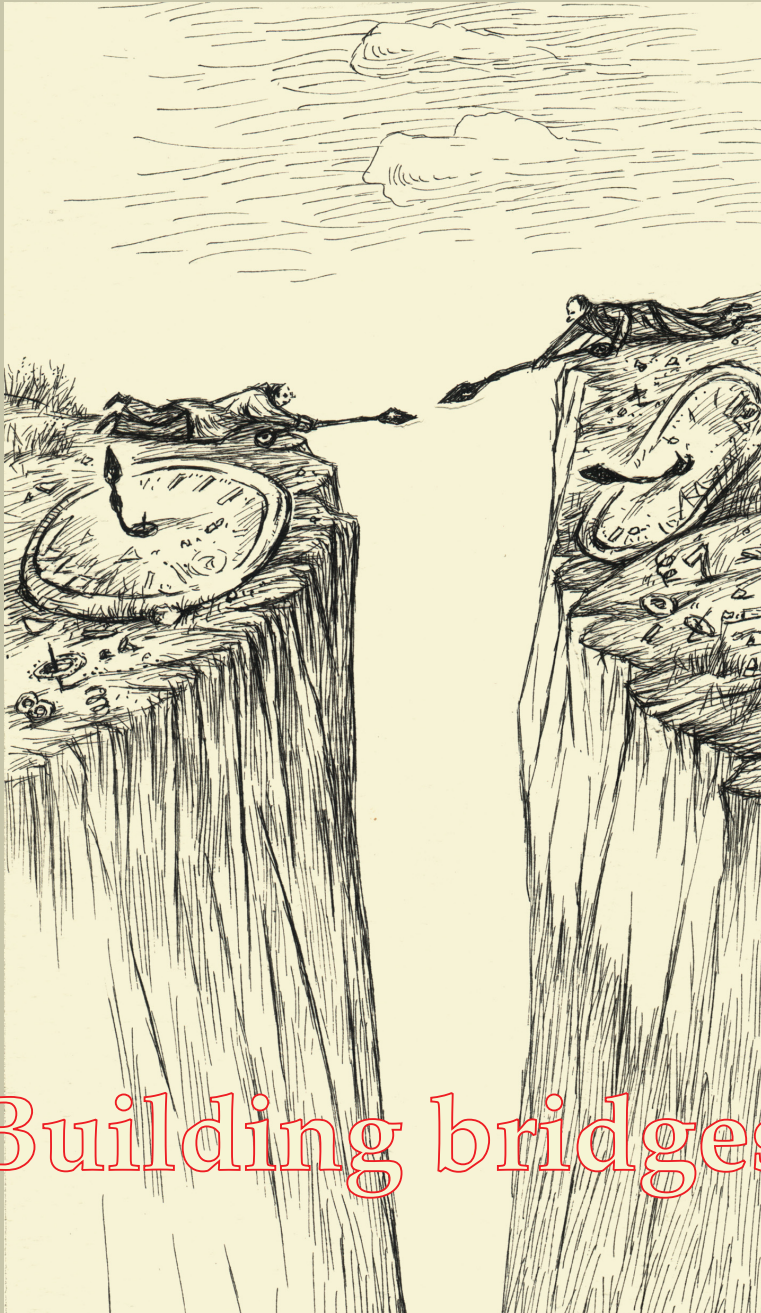


CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 2004



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
2004 ANNUAL REPORT**

Drawing: Anri Koulev

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Center for the Study of Democracy

Building Bridges between Scholars and Policy Makers

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

CSD objectives are:

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

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

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

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

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Introduction

The Center for the Study of Democracy seeks to pioneer difficult reforms and provide vision as to the future challenges facing Bulgaria and Southeast Europe. CSD's strong institutional capacity has opened new avenues and areas where civil society can make a contribution to reforms. Over the years, CSD has taken the lead in advocating key reforms in areas such as the regulatory framework for non-profits, establishment of the ombudsman institution, the introduction of anti-smuggling policies and other areas.

In addition to being the year of NATO membership and completion of EU accession negotiations, 2004 also marked the transition to a new institutional environment in Bulgaria. Some of the key economic reforms have been put place, while others, notably judicial reform and measures against political corruption, are still to be implemented. CSD has taken the lead in 2004 both areas by proving a comprehensive overhaul of institutional and legislative reforms in the field of good governance over the past seven years. The purpose was to take stock of the reforms in place and chart the mid to long term horizon of remaining challenges.

A major CSD achievement in promoting a business-friendly environment and reducing judicial corruption was the progress in business registration reform. The government strategy for establishing a central electronic register of legal persons and an electronic registries center was primarily based on CSD's policy paper on registration reform.

This work was made possible by a combination of research, policy formulation and advocacy capacity which CSD has developed over the years. Having introduced a unique national-level system of measuring corruption, in 2004 CSD began to focus more on developing watchdog instruments which reflect the new institutional environment in the country and the reform priorities of the period. Namely, this meant greater use of targeted tools to identify good governance failures in the area of what the EU identifies as justice and home affairs.

A key characteristic of a think tank is the ability to formulate reform policies. This is particularly relevant in Bulgaria where a volatile political environment and weak civil service undermine the development of medium and long term policy vision, especially in sensitive areas such as corruption. Policy making in Bulgaria, particularly in areas such as anti-corruption, is still a fragmented and haphazard process. The civil service plays a limited role in the process, and the same applies to non-governmental stakeholders. Against this background, CSD plans to boost its policy work in the field of anti-corruption and thus assist the government in adopting advanced policy analysis and formulation techniques, including an interface with international and non-governmental stakeholders.

The ability to bring together public sector and private sector (commercial and non-profit) actors together in the policy process is crucial in advocacy. In this respect it is also important to have a reputation for non-partisanship, which CSD enjoys

almost uniquely in Bulgaria. This was of particular benefit in CSD's work to promote policies to reduce the gray economy, particularly in the labor market.

CSD has always complemented its think tank work with the role of facilitator and resource organization for capacity building. The latter efforts increased in 2004 with CSD's partnership with the World Bank under its Global Development Learning Network (GDLN). GDLN cooperation was particularly appropriate for CSD as it allows it to expand the audiences it could reach in the delivery of its content. CSD also enhanced its role as facilitator and organizer of training for government officials and NGO representatives from the Western Balkan countries. This was made possible through the transformation of CSD's research and policy recommendations output into instructional formats tailored to the needs of specific groups.

Sofia, April 2005



Dr. Ognian Shentov
CSD Chairman

Part One

Program Reviews

Law Program

The institutional and legal reform in the context of Bulgaria's accession to the European Union continued to be the major area of activities of the Law Program during 2004. The efforts involved drafting and supporting legislative changes, promoting judicial reform as well as developing and strengthening new mechanisms for monitoring the activities of public administration and protecting human rights.

2004 Highlights

- The Law Program continued to promote and support the introduction of local public mediators (ombudsmen) on municipal level. The process marked significant progress and by the end of 2004 a number of municipalities successfully introduced the new institution.
- Further efforts were dedicated to advocating for the election of the national ombudsman and for improvement of the legal framework of the institution, including its incorporation in the Constitution. Draft amendments to the Constitution, prepared by Law Program experts, were presented to the major stakeholders and were publicly discussed at a number of events.
- The Law Program continued to contribute to the legislative reform in Bulgaria by providing expert advice on drafting new legislation such as the Draft Law on Political Parties and the Draft Law on Forfeiture to the State of Assets Acquired through Criminal Activity.
- CSD published the book *Electronic Document and Electronic Signature. Legal Framework* including detailed commentary on the legal framework of e-documents and e-signatures in Bulgaria, prepared by Law Program experts. Further efforts focused on promoting the implementation of the e-signature legislation in the operations of the public administration and in the provision of public services.
- Law Program experts contributed to the drafting of the necessary legislative amendments for the introduction of electronic documents and electronic signatures in the judiciary. The package of draft laws has been approved by the government and presented to parliament.
- The Law Program facilitated the reform of company registration by contributing to the elaboration of a draft governmental strategy on the registration reform.

I. Institutional and Legislative Reform

1. Introducing Ombudsman Institution in Bulgaria

The efforts of the Law Program to facilitate the establishment of the ombudsman institution in Bulgaria continued in 2004 combining advocacy, awareness and training activities. Building on the established public-private partnership with municipal authorities and local NGOs the Law Program assisted the process of introducing local public mediators (ombudsmen) at a number of municipalities. As a result, by the end of 2004, seven public mediators have been elected and started their activities. Members of the Law Program team delivered lectures at seminars, workshops and public hearings throughout the country, explaining the role of the ombudsman combating maladministration and human rights violations. Further efforts were dedicated to encourage the establishment of the national ombudsman as well, although at the end of 2004 parliament had yet to elect the first Bulgarian parliamentary ombudsman.

Drafting Legislation

The shortcomings of the adopted legislation governing the establishment and operation of the parliamentary ombudsman and the local public mediators motivated the Law Program team to continue its efforts towards the creation of a modern legal framework of the ombudsman institution in Bulgaria.

- Law Program experts were actively involved in the *Coalition 2000* activities for drafting constitutional amendments by providing expert opinion and methodological assistance.
- Members of the Law Program team participated in the Task Force, hosted by the Local Government Initiative, which developed *Model Rules of Organization and Activities of the Local Public Mediators and Step-by-step Guidelines for Municipalities on How to Establish a Local Public Mediator*. The Model Rules and the Step-by-step Guidelines were widely distributed in the course of the CSD awareness activities and provided practical assistance to the municipal councils, willing to establish such an institution.

Raising Public Awareness

A series of awareness activities were organized aimed to popularize the advantages of the ombudsman and to convince the policy-makers' community in the necessity of establishing such institution.

- The **Training of Trainers Seminar on The Institution of Local Public Mediator in Bulgaria** that took place in Veliko Turnovo on April 23-25, 2004, brought together representatives of local NGOs and local government authorities. Law Program experts presented the legislative framework of the ombudsman institution in Bulgaria and the initiatives for introducing local public mediators, undertaken in some municipalities. The participants in the event expressed their concerns that the drawbacks of the legal framework could adversely influence the work of local ombudsmen. Representatives of local NGOs briefed the audience on the human rights protection initiatives undertaken on regional level in Varna, Gorna Oryahovitza, and Veliko Turnovo.
- The **Municipal Training Seminar on Human Rights Promotion and**



During the seminar in Veliko Turnovo (from left to right):
 Ms. Teodora Kaleynska, Chair of the Initiative for Sustainable Development Local
 Agenda 21 - Veliko Turnovo, Dr. Maria Yordanova, Director of CSD Law Program,
 and Ms. Dragomira Paunova, Project Assistant at CSD Law Program

Protection through the Institution of the Local Public Mediator, held in Haskovo on July 23, 2004, was aimed at popularizing the local ombudsman institution among the citizens, the local administration officials, and the NGOs from the region of Haskovo. The presentations delivered at the event focused on the legal framework of the ombudsman in Bulgaria and the experience accumulated so far with the establishment of such institutions on municipal level.

- In order to discuss in detail the role of the ombudsman institution as a mechanism for protecting the rights of specific groups of citizens the Law Program organized **two specialized Public Hearings**: one on **The Institution of Local Public Mediator, Local Administration and Disadvantaged People** (held in Veliko Turnovo on October 27, 2004) and the other on **Rights of Women and Mechanisms for their Protection** (held in Varna on November 12, 2004).

Educational and Training Activities

- Law Program experts in cooperation with university lecturers and academics developed the first **specialized university course on the ombudsman institution**. The ombudsman is still a novelty for Bulgaria's legal system and is therefore rarely included in the curricula of Bulgarian universities. However, thanks to the efforts of the Law Program, in 2004 the Law Faculty of Varna Free University became the first to include the course in its curriculum for the 2004-2005 academic year. The first course, entitled *The Ombudsman Institution – Legal Nature and Competencies in National, Comparative Law and European Context* started in the fall of 2004, enjoying considerable interest by the students.

The **educational radio show** *Mediation and the Rule of Law*, developed by the Law Program and broadcast on *Christo Botev* National Radio Program presen-

ted to a large audience the powers and the procedures of the ombudsman institution on both national and local levels. Politicians, acting and former local public mediators, representatives of NGOs and experts, participated in the program series.

Publications

The Law Program expanded its series of publications on the ombudsman institution by issuing two more papers in 2004.

- The brochure *Local Public Mediators in Bulgaria* summarizes the accumulated experience and the best practices of the ombudsman type institutions on local level that have functioned as pilot projects during the 1998 – 2003 period. It also presents the first steps in the process of establishing such institutions after their legislative regulation in the fall of 2003.



- The educational manual *The Ombudsman Institution in Europe and Bulgaria: Legal Nature and Practice* is designed for specialized courses and programs in Bulgarian universities and high schools. It would be useful for students of law and political science, experts in public administration, human rights organizations, as well as for citizens to defend their rights

against omissions, illegal actions, or abuse of power on the part of the administration.



The Law Program continued to regularly publish articles in the *European Ombudsmen Newsletter* – a periodical issued by the Office of the European Ombudsman. The contributions provided in 2004 included:

- *Efforts Continue to Establish the Ombudsman Institution* (Issue No.2, April 2004);
- *The Emerging Ombudsman Institution in Bulgaria. Bulgarian Parliament Fails to Elect an Ombudsman* (Issue No.3, October 2004);
- *The Ombudsman Institution on the National and Local Levels – the Bulgarian Experience* (Issue No.3, October 2004);
- Summary of the brochure *Local Public Mediators in Bulgaria* (Issue No.3, October 2004).

To facilitate the election of the first Bulgarian parliamentary ombudsman and to foster dialogue between policy makers and the civil society in the process of nominating candidates the Law Program published and disseminated two policy briefs: *The Long Way of the Emerging Ombudsman Institution in Bulgaria* and *The Long Way of the Emerging Ombudsman Institution in Bulgaria: Six Months Later*. Both documents included analysis of the problems hampering the

election of the national ombudsman as well as recommendations for their overcoming.

“The successful election of a widely accepted personality highly depends on the active involvement of civil society and broad public consultations before the next nomination procedure is opened. This would not only increase the publicity and transparency of the entire procedure, but could also encourage political parties to reach an agreement so that the ombudsman could be elected with a higher majority. The broader support for the ombudsman would provide the institution with the necessary legitimacy and public confidence.”

CSD Policy Brief No.3: The Long Way of the Emerging Ombudsman Institution in Bulgaria, May 2004

International Cooperation

The knowledge and experience of the Law Program team with the introduction of the ombudsman institution in Bulgaria allowed it to participate in various international events, including:

- **Visit to the Office of the Federal Ombudsmen of Belgium** and meeting with the two Federal Ombudsmen Mr. Pierre-Yves Monette and Dr. Herman Wuyts (Brussels, April 15, 2004). During the meeting the participants discussed the situation with the establishment of the ombudsman institution in Bulgaria and opportunities for further development of the established cooperation.
- **Training Workshop for Ombuds-person Institutions** (Tbilisi, Georgia, September 23-25, 2004). The workshop was organized by the European Centre for Minority Issues (ECMI) and hosted by the Office of the Public



At the office of the Parliamentary Commissioner for the Armed Forces of the German Bundestag (from left to right): Mr. Vladimir Yordanov, CSD Executive Director, Dr. Ognian Shentov, CSD Chairman, Dr. Willfried Penner, Parliamentary Commissioner for the Armed Forces, Dr. Maria Yordanova, Director of CSD Law Program, and Mr. Atanas Krastin, Deputy Head of Mission of the Bulgarian Embassy in Germany

Defender of Georgia. The event brought together representatives of the ombudsman institutions from Armenia, Azerbaijan and Georgia, academics, as well as international organizations and NGOs, such as the Organization for Security and Cooperation in Europe (OSCE), the United Nations, and the Helsinki Committee.

- **Visit to the Office of the Parliamentary Commissioner for the Armed Forces of the German Bundestag** (Berlin, September 28, 2004). During the visit CSD representatives met with the Parliamentary Commissioner for the Armed Forces of the German Bundestag Dr. Willfried Penner and senior officials from his office. They discussed the opportunities for establishing an ombudsman for the armed forces in Bulgaria. The meeting was part of the newly launched initiative of the Law Program for introducing specialized ombudsman institutions in Bulgaria, such as a health services ombudsman or an armed forces ombudsman.
- **Meeting with a delegation of the Petitions Committee of the German Bundestag** (Sofia, November 17-19, 2004). The discussion focused on the role of the Committee in protecting human rights and improving the work of government institutions as well as the importance of other similar mechanisms, such as the ombudsman institution.

2. Participating in the Public Debate on Constitutional Amendments

The Law Program actively participated in the public debate on the amendments to the Bulgarian Constitution necessary in view of the country's forthcoming accession to the European Union. Law Program experts started examining

the compliance of the Bulgarian Constitution with the EU membership requirements. The initiative was launched within the framework of the Communication Strategy for EU Accession of the Ministry of Foreign Affairs. The study includes also an overview of the constitutional reforms in Bulgaria in the period 2003-2004 and a summary of the constitutional changes undertaken in EU Member States, especially the newly acceded ones. The results of the study will be included in an analytical report, which will be officially presented before the signing of the Accession Treaty with Bulgaria in April 2005.

3. Improving the Legal Framework of Political Parties

The Law Program continued its efforts to promote the reform of political parties legislation. In 2004 members of the Law Program team have been involved in the work of the Parliamentary Committee on Civil Society Issues and provided comments and recommendations on the Draft Law on Political Parties, particularly on the draft provisions regarding the funding of political parties. Advocating for a speedier adoption of the draft, the Law Program prepared and disseminated a policy brief *The Outstanding Agenda for Political Party Reform in Bulgaria*, outlining the necessary steps to be undertaken for successfully reforming the system of political parties in Bulgaria.

"It is of crucial importance for the current National Assembly to keep the momentum and successfully complete the reform before the expiration of its mandate. Otherwise, if the Parliament fails to adopt the new law in time, the elections would be held according to the existing legislation. Thus the reforms

would be considerably postponed or even blocked if the next parliament does not show the necessary political will to develop them further.”

CSD Policy Brief No.4: The Outstanding Agenda for Political Party Reform in Bulgaria, July 2004

4. Supporting the Introduction of Criminal Assets Forfeiture

The Draft Law on Forfeiture to the State of Assets Acquired through Criminal Activity, developed by the Ministry of Interior, was substantially improved thanks to the domestic and foreign expertise provided through the Law

Program. With the support of the Law Program, a series of public discussions on the draft law that contributed to better formulating the legal provisions, included:

- **Round table on Assets Seizure in Europe: Legislative and Operational Instrument to Counter Corruption and Organized Crime** (March 2, 2004), featuring presentations by Mr. Miguel Angel Alonso Rodriguez, Chief Inspector of the Judicial Police, National Police of Spain, Mr. Gerard Leguet, Divisional Commissioner, Director of International Actions, Economic and Financial Directorate, General Directorate of Judicial Police, and Mr. Felix McKenna, Chief Bureau Officer, Criminal Assets Bureau of Ireland;



During the Assets Seizure Round Table (from left to right): Dr. Maria Yordanova, Director of CSD Law Program, Mr. Austin Gormley, Charge d’Affairs, Embassy of Ireland, Dr. Ognian Shentov, CSD Chairman, Mr. Felix McKenna, Chief Bureau Officer, Criminal Assets Bureau of Ireland, and Professor Georgi Petkanov, Minister of Interior

- **Public discussion on *Assets Forfeiture as a Mechanism for Combating Corruption and Organized Crime*** (June 3, 2004), featuring presentation by Mr. Heiner Boxleitner, Chief Criminal Commissioner of Bavaria;
- **Public discussion on *The British Policies and Approach to Assets Recovery*** (July 8, 2004), featuring presentations by the British experts Mr. John Tanner, Assistant Director, Performance and Policy, Assets Recovery Agency, and Mr. Stephen Goadby, Policy Advisor, Financial Crime Team, Home Office.

The discussions were aimed at both improving the quality of the draft law and increasing the transparency of the drafting process. They brought together policy makers, government officials, lawyers, experts, representatives of NGOs and the business community allowing them to benefit from the experience and best practices of other European countries. As a result of the discussions a number of proposals and recommendations for improving the draft law were formulated and presented to the drafting team.

5. Electronic Document and Electronic Signature

The Law Program continued to provide expertise in the process of developing the legal framework of electronic documents and electronic signatures in Bulgaria. Building on the experience accumulated in the course of drafting the Law on Electronic Document and Electronic Signature, in 2004 the Law Program contributed to the preparation of the draft legislation governing the use of electronic documents and electronic signatures within the judiciary. Representatives of the Law Program were included as members of the Expert Interagency Task Force set

up by the Council of Ministers. The Task Force elaborated a set of draft laws (including amendments to the Criminal Code, the Criminal Procedure Code, the Civil Procedure Code, the Tax Procedure Code, the Law on the Judiciary and the Law on the Electronic Document and Electronic Signature), which was subsequently approved by the government and submitted to the National Assembly.

“ ...The cooperation of the Ministry of Justice with the non-governmental sector is developing successfully also in the area of applying new technologies in the judiciary. Here we should mention the active contribution of the Center for the Study of Democracy in the development of the Law on Electronic Document and Electronic Signature and the draft laws on amending and supplementing of the Criminal Code, the Code of Criminal Procedure and the Code of Civil Procedure.”

Mr. Anton Stankov, Minister of Justice,
at the round table *Economic Growth and Higher Living Standards*, held by the World Bank and the Council of Ministers on June 17, 2004

- In March 2004 CSD in cooperation with CIELA Publishing House published the book *Electronic Document and Electronic Signature. Legal Framework*. The edition is a result of the comprehensive research and analytical work carried out by the Law Program E-Signature Task Force in the period 2002-2003. It includes a detailed commentary on the Law on Electronic Document and Electronic Signature, an overview of the status and development of e-document and e-signature legislation in other countries and inter-

nationally as well as an overview of the major governmental and non-governmental initiatives in the area of information technologies undertaken in Bulgaria. The book contains also an analysis of the Bulgarian e-document and e-signature legislation in comparison with the EU law and a study on the legal regulation of computer crime under Bulgarian criminal law. The edition offers a set of annexes, including:

- a glossary of the most frequently used terms in the area of electronic signatures;
- standard documents for registration of certification service providers;
- a set of lists, prepared by the Communications Regulation Commission in accordance with the Law on Electronic Document and Electronic Signature and the ordinances on its implementation;
- the full text of the Law on Electronic Document and Electronic Signature and the ordinances on its implementation,
- the most important international instruments, European Union acts and foreign laws – translated to or summarized in Bulgarian,
- figures and schemes demonstrating the process of preparation and use of electronic documents and electronic signatures,
- the parties of the electronic communications and the relations between them,
- the mechanism for creation and use of qualified electronic signatures,

- the issuance of certificates for qualified electronic signatures.

In order to make the edition useful for foreign experts as well, an English-language summary of the process of developing the Bulgarian legal framework and its implementation and the full text of the Law on Electronic Document and Electronic Signature in English were also included.



- The book *Electronic Document and Electronic Signature. Legal Framework* was publicly presented at a **Round table discussion on Electronic Document and Electronic Signature: Instruments for Good Governance and Transparent Administration**, held by CSD on April 6, 2004. The event brought together representatives of the legislature, the executive and the judiciary, information technologies professionals, representatives of foreign and international organizations, the business community, journalists. The discussions focused on the opportunities to raise the efficiency and counter corruption in the work of the public administration and the provision of public services through the introduction and use of information technologies.



During the round table on electronic document and electronic signature (from left to right): Mr. Svetozar Tonev, Coordinator of the Interagency Task Force, Mr. Borislav Belazelkov, Justice, Supreme Court of Cassation, Dr. Maria Yordanova, Director of CSD Law Program, Mr. Anton Stankov, Minister of Justice, Dr. Ognian Shentov, CSD Chairman, Mr. Dimitar Kalchev, Minister of State Administration, and Prof. Dr. Jos Dumortier from the Interdisciplinary Center for Law and Information Technology at the Faculty of Law of the Katholieke Universiteit, Leuven, Belgium

II. Judicial Reform

1. Improving the Organizational Structure of the Judiciary

The Law Program continued to promote its concept for judicial reform, in particular as regards the improvement of the organizational structure of the judiciary. Following the submission in 2003 of the draft constitutional amendments, developed by Law Program experts, to the Ad-Hoc Parliamentary Committee on Amendments to the Constitution, the proposals were publicly presented and discussed at events, such as:

- Sixth Anti-Corruption Policy Forum (Sofia, February 17, 2004), organized by *Coalition 2000*;
- Round table on *Countering Corruption in Public Administration: The Spanish Experience* (Sofia, February 19, 2004), organized by CSD and *Coalition 2000*;
- International seminar on *The Impact of (Future) Accession to the European Union on the National Legal System* (Sofia, April 16-17, 2004),



*During the presentation of the Spanish experience in countering corruption (from left to right):
 Mr. Luis Salinas, Magistrate, Penal Court in the National Court of Justice,
 Mr. Daniel Campos, Prosecutor at the Special Public Prosecutor's Office Anti-drugs,
 National Court of Justice, Mr. Jose Antonio Choclan, Magistrate, General Judicial Council, and
 Mr. Javier Zaragoza, Deputy Prosecutor at the Special Prosecutor's Office Anti-drugs,
 National Court of Justice*

organized by the Center for the Study of Democracy jointly with the T.M.C. Asser Institute and the New Bulgarian University;

- Sixth Colloquium on Cross-Border Crime: *Crime and Economy and Crime Economy* (Berlin, September 2-4, 2004), organized by the Friedrich Ebert Foundation and the University of Tilburg;
- Civil Convent for Amendments to the Bulgarian Constitution (Sofia, October 13, 2004), organized by the Open Society Institute – Sofia.

2. Reforming the Registration System in Bulgaria

The initiative of the Law Program to promote and support the reform of the system of official registers in Bulgaria, launched in 2002, marked further progress in 2004. A second edition of the brochure *Opportunities for Establishment of Central Register of Legal Persons and Electronic Registries Center in Bulgaria* was published, including an updated version of the report of the Law Program Task Force on Registration Reform and an overview of the recent developments of the reform process.



Mr. Dimitar Markov, Project Coordinator at CSD's Law Program (left) and Dr. Maria Yordanova, Director of CSD Law Program, present the concept for reforming the registration system at the colloquium on Reforming the Judiciary and the Public Regulatory Mechanism for Funding in the Context of Transition, European Integration and Globalization

The proposal for reforming the registration system, developed by the Task Force on Registration Reform, was publicly presented and discussed at various events, among which were the **international seminar on Modernization of the Commercial Register in Bulgaria** (February 9, 2004) and the **colloquium on Reforming the Judiciary and the Public Regulatory Mechanism for Funding in the Context of Transition, European Integration and Globalization** (November 26-27, 2004).

Representatives of the Law Program Task Force on Registration Reform were invited by the Minister of Justice and took part in the work of the Working Expert Group for developing a *Strategy for Establishing a Central Electronic*

Register of Legal Persons and an Electronic Registries Center of the Republic of Bulgaria set up by Decision No. 332 of April 30, 2004, of the Council of Ministers.

The draft version of the strategy, prepared in the autumn of 2004, successfully passed the coordination procedure through all the ministries and was submitted for approval by the Council of Ministers. According to the strategy, the existing court registration procedures should be replaced with uniform and standardized administrative procedures. The provisions also mandate that the registers should be centralized and converted into electronic ones, and each entity would be assigned a unique ID number.

Economic Program

In line with CSD's mission the main objectives of the Economic Program in 2004 were:

- to inform public economic policy in the field of informal economy
- to promote business integrity and the principles of good corporate governance
- to build capacity for horizontal accountability at the local level.

The program was also instrumental in expanding the local knowledge for development through setting up and running the Sofia Distance Learning Center of the World Bank's Global Development Learning Network.

2004 Highlights

Informal Economy

In 2004 CSD published the book *The Hidden Economy in Bulgaria*. It summarizes more than four years of extensive study of the theoretical and practical implications of informality on Bulgaria's economic development. It is a preferred reference point for anyone who embarks on the subject in Bulgaria – from academics to policy makers.

Corporate Governance

CSD continued to promote the principles of business integrity, good corporate governance and ethical standards with respect to their importance for the capital market development, growth of new firms and attracting financing for investment projects. CSD's publication *Corporate Governance in Development* reviews the major events, practices and problems, related to corporate control in Bulgaria during the 2002 – 2004 period.

Horizontal Accountability and Enterprise at Local Level

In 2004 CSD initiated and launched together with 19 representatives of the biggest investors and education institutions in the city of Sofia and the Mayor's Office a new public – private initiative: the Sofia Economic Council. The purpose of the Council is to make the city part of the global network of modern, dynamic and attractive centers for entrepreneurship, business, work and education. The Council seeks ways to improve business participation in public policy decision making, enhance the city's horizontal accountability and enterprise creation.

Business and Legal System

In 2004 together with an international research team CSD started a series of studies into the effects of the legal system on the way business is done in Bulgaria. The first round of research was presented to policy makers and the

members of the judiciary in Sofia at an international conference, which gave further practical insights for reform.

Distance Learning

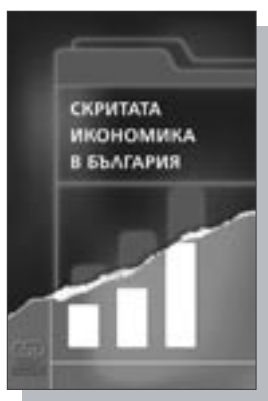
In 2004 CSD became a host to the first Bulgarian Distance Learning Center of the Global Development Learning Network (GDLN). The Network is an initiative of the World Bank and unites such centers in over 60 countries in the world. The Center offers a range of possibilities for videoconferencing and online learning on an array of development topics. By means of modern technology this initiative presents easy and extensive access to global education and knowledge sharing. The facility greatly enhanced CSD's capacity and capability to build bridges of knowledge to and from the outside world.

I. Informal Economy

According to international estimates the share of the hidden economy worldwide accounts for 10-12% of global GDP. In the transition economies of Central and Eastern Europe, however, hidden economy reaches one fourth of GDP. Economic analyses show that if the share of the hidden sector exceeds a critical level (around 50% of GDP) it changes the competitive "rules of the game" in the whole economy. In Bulgaria the tax burden, ineffective law enforcement and administrative barriers to businesses are the main factors stimulating informal economic

activities. These are some of the findings in CSD's new book *The Hidden Economy in Bulgaria*, which came out in 2004.

Under the *Coalition 2000* anti-corruption initiative, CSD gathered experts from the National Social Security Institute, the Bulgarian National Bank, the National Statistical Institute and the Agency for Economic Analyses and Forecasting to come up with a sound and comprehensive analysis of the causes and consequences of the hidden economy in Bulgaria and to provide an array of possible policy solutions in different areas of the economy. The publication presents the latest trends and challenges of the hidden economy to the private and public sectors. It describes the various manifestations of Bulgaria's hidden economy and assesses its size, scope and characteristics through six different methods. The publication gives a broader view of this phenomenon in Bulgaria for the past four years and assesses specific socio-economic characteristics (labor market, domestic production, tax and social security system, black economy). It also underscores the necessity of international cooperation in the area of hidden economy. The



Cover of the book *The Hidden Economy in Bulgaria*

authors conclude with recommendations for improvement of the legislative and regulatory framework for the business and its implementation.

The Economic Program disseminated more than 400 copies of the book *The Hidden Economy in Bulgaria* to partners, libraries and government institutions. It continued its contribution to the Informal Economy thematic page on the Bulgaria Development Gateway (<http://www.bulgaria-gateway.org>).

In 2004 CSD expanded its international network of hidden economy expertise to share acquired knowledge and to stay on the cutting edge of international developments in this domain:

- In August 2004 the Center organized a series of working meetings with Prof. Edgar Feige, an internationally recognized scholar on informal economy from the University of Wisconsin-Madison. The meetings touched on the latest academic achievements on issues related to measuring informal economy, defining firms' non-compliant behavior and the role of informal, formal and capital networks in doing business in a transitional context. Particular focus of the meetings were sampling techniques, self-selection biases, and determinants of supply and demand of non-compliant behavior targeted at tax evasion and acquisition of public or private procurement contracts;
- In September 2004 experts from the Center took part in the **Sixth International Colloquium on Cross-Border Crime: Crime and Economy and Crime Economy** in Berlin. It centered on revealing the links between legal and illegal entrepreneurs, the vulnerability of the legal economy and the ways to counteract organized business crime – issues pertinent to Bulgaria's present level of development. Developing expertise in the field of criminal (black) economy expanded the Center's capacity in the field of hidden economy and gave it new insights for public policy development and action support;



From left to right: Dr. Ognian Shentov, Chairman, Center for the Study of Democracy, Mr. Todor Yalamov, Project Coordinator, Center for the Study of Democracy, Prof. Edgar Feige, University of Wisconsin-Madison and Mr. Ruslan Stefanov, Project Coordinator, Center for the Study of Democracy



From left to right: Mr. Pencho Penev, Director, National Institute of Justice, Mr. Didier Chabert, Premier Conseiller, Deputy Head of Mission, Embassy of France, Mr. Anton Stankov, Minister of Justice, Ms. Liubka Ilieva, Deputy Chief Director of the Supreme Court of Cassation, Ms. Margarita Vassileva and Mr. Thierry Delpeuch, researchers from the French National Centre for Scientific Research (CNRS) and the Group for Analyses of Public Politics (GAPP) at the international conference Justice, Financial System, Business

- In November 2004 CSD together with an international team of experts and scholars organized in Sofia the first of three international conferences on **Justice, Financial System, Business**. It was part of a larger effort to study *Reforms of the Regulating Institutions in the Context of Transition to Democracy, European Integration and Globalization*. The event was dedicated to judicial system and banking sector reforms in countries such as Italy, Belgium, France, Brazil, Bulgaria, Hungary, Indonesia and Singapore. These reforms were a focal point of development of democratic economic institutions in these countries. In Bulgaria, as well as in other countries, the size and form of the hidden economy and its interactions with the formal social

institutions are shaped to a very large extent by the influence of the systems of justice and banking.

II. Corporate Governance

The past two years have witnessed the almost full completion of the privatization process in Bulgaria and the rising importance of the private sector and free markets. The rules by which private governance and control are exercised have come under various tests of real life competition and markets. Upholding sound principles of corporate governance is a prerequisite for the long-term health and growth of the private and public sectors in the country.

In 2004 CSD explored the dynamic developments in corporate governance of the past two years to ensure early warning for emerging positive and negative trends and to enhance the systems of corporate control in the national economy. CSD prepared and published the book *Corporate Governance in Development: Bulgaria 2002-2004*. It pinpoints the latest developments in the legislative framework for corporate governance, information disclosure and governance transparency, as well as corporate social responsibility. The authors give analytical insight into the terms and instruments of trade of the booming stock exchange market of 2004, and provide a critical review of, what is emerging as, the Bulgarian corporate governance model. The book also examines the achievements and omissions in the corporate governance legislative framework during the period 2002 – 2004. Further on, the researchers analyze the characteristics of the Bulgarian shareholders and corporate organization and the relations between the members of the board of a company and the company itself.



Cover of the book *Corporate Governance in Development: Bulgaria 2002-2004*

The authors demonstrate the need for social and responsible corporate governance. The book was prepared

by a CSD led team that included representatives of the Bulgarian Parliament, the Financial Supervision Commission, the Bulgarian Stock Exchange, private banks and academics. They built up on the efforts of the Corporate Governance Initiative of Bulgaria and the White Paper on Corporate Governance in South Eastern Europe.

III. Horizontal Accountability and Enterprise at Local Level

Horizontal accountability, as opposed to vertical, represents the system of civic checks and balances that enables the proper functioning of the democratic system and free markets. It is essential to building a democratic society and is instrumental to a competitive free entrepreneurial economy. Horizontal accountability is vital at the local level where businesses and civil society groups work most closely with the local authorities to enhance society's prosperity. One of the major activities in progress of CSD in 2004 was the creation of mechanisms for horizontal accountability in the city of Sofia, Bulgaria's capital.

On January 28th 2004, on CSD's initiative, the Mayor of Sofia, Mr. Stefan Sofyanski, hosted the inauguration meeting of the Sofia Economic Council – a public-private partnership that aims to enhance the capital's economy. The Council comprises of representatives of the biggest private sector employers and investors in Sofia's economy (including the largest higher-education institutions). The purpose of the Council is to make the city part of the global network of modern, dynamic and attractive centers for entrepreneurship, business, work and education. Every year the Council will present a *Sofia Competitiveness White Paper* to the Mayor and the Municipal Council. The Paper



From left to right: Mr. Ognian Shentov, Chairman, Center for the Study of Democracy, Mr. Ruslan Stefanov, Coordinator of the Economic Program, Center for the Study of Democracy, Mr. Minko Gerdjikov, Deputy Mayor, Sofia Municipality, Mr. Stefan Sofianski, Mayor, Sofia Municipality, Mr. Assen Dyulgerov, Municipality Councillor

shall compare internationally Sofia's economy, business environment, human capital and innovation potential.

To strengthen the Sofia Economic Council's institutional capacity CSD organized two study workshops with a peer organization in the United States – the Federal City Council of Washington D.C., a prestigious association of 200 top business, professional and civic leaders involved in promoting the development of the U.S. Capital. In April 2004 a delegation headed by the Mayor of Sofia, Mr. Sofianski, participated in a round table discussion *Democratic Governance in Bulgaria: Using Public-Private Partnerships to Advance Economic Reforms* at the Federal City Council. The delegates shared experience and advice on good local governance with U.S. peers. Mayor Sofianski met with the Mayor of Washington D.C., the Chair of the Federal City Council and the Executive Director of the Center for International Private Enterprise to exchange ideas on

democratic city governance. The visit was used by the CSD team to learn more about public-private partnership at work and to study the way such initiatives perform effectively.

The visit was returned by Mr. Kenneth Sparks, Vice President of the Federal City Council in Washington D.C. who visited Bulgaria in September 2004 on invitation of the Mayor of Sofia and the Center for the Study of Democracy. He held talks with the Mayor on how to enhance Sofia's economy and delivered a lecture on public-private partnership in municipal development to the Sofia Economic Council. Mr. Sparks presented his 20 years of experience as head of the Federal City Council.

CSD was also active in assisting the improvement in local administrative governance in Sofia in the area of licensing, registration and permit regimes. A working group, set up by CSD, drafted a *Report on Good Governance of Business Regulations and*

Licensing in Sofia, which included an evaluation of the existing procedures and recommendations for streamlining. The Report revealed that the most burdensome regimes in terms of time and money implemented by the Sofia Municipality and its 24 districts were (1) registering a commercial outlet; (2) obtaining a building permit and a subsequent (3) permit for use of the newly built facility. The team estimated that just the eliminating of the commercial outlet registration regime would result in BGN 73 mln (US\$ 45.6 mln) of direct savings for businesses or 0.75% of the city's GDP. The regime was effectively removed in 2005.

IV. Distance Learning

In recent years traditional forms of obtaining and sharing knowledge such as seminars and discussions, had been enhanced by new interactive technologies such as videoconferences

and the Internet. CSD stays on the cutting-edge of these developments to enhance its mission through the most advanced technologies available. In 2004 CSD joined the family of the Global Development Learning Network (GDLN), which unites over 60 countries all over the world and set up the first Bulgarian distance learning center. The GDLN was established by the World Bank to support sustainable development and the overcoming of poverty in transition and developing countries by creating and expanding their possibilities for training, exchange of knowledge and dialogue among specialists, engaged in development issues. As a part of this initiative since March 2004 CSD has accommodated a Distance Learning Center (DLC), which offers opportunities for videoconferencing and distance learning. Through the DLC the Bulgarian policy community and society gained access to the pool of cutting-edge expert knowledge in international education centers at a very low cost.



From left to right: Mr. Ruslan Stefanov, Coordinator, Economic Program, Center for the Study of Democracy; Mr. Minko Gerdzhiyov, Deputy Mayor of Sofia and Mr. Kenneth Sparks, Vice President of the Federal City Council in Washington D.C.

The Center is open to public servants, businesses, universities, and NGOs. They use its services and technology to access world knowledge and to communicate with partners and experts all over the world. Some of the issues,

most recently covered by the Distance Learning Center's videoconferences, included seminars on *Business Regulation and Enforcement of Market Entry and Governance for Young Leaders in Eastern European Countries*.



Dr. Ognian Shentov, Chairman, Center for the Study of Democracy (left) and Ms. Lydia Shouleva, Deputy Prime Minister and Minister of Economy during the official ceremony for launching the Distance Learning Center

Vitosha Research / Sociological Program

2004 Highlights

In 2004 Vitosha Research conducted 50 social, economic, marketing and media surveys. Quantitative and qualitative methods were used to conduct 24,700 personal standardized and semi-standardized interviews, 50 in-depth interviews and 18 focus group discussions. The results of the conducted surveys were summarized in over 20 analytical reports.

- In 2004 a considerable part of the work of Vitosha Research was related to corruption, the hidden economy, crime, security, as well as to social projects and assessments, marketing and business studies.
- The periodic surveys on corruption, part of the Corruption Monitoring System of *Coalition 2000*, were developed by Vitosha Research and applied during the 1998-2004 period. In addition corruption-related surveys were carried out among specific groups of respondents – such as Tax Administration employees and Ministry of Interior officers.
- In continuation of an international project studying informal networks in Bulgaria, Romania, Slovenia and the Czech Republic, launched in 2003, Vitosha Research produced a report analyzing such networks in Bulgaria and prepared a study of the Bulgarian elites.
- Vitosha Research surveys also examined the issues of crime as well as small arms and light weapons (SALW). In July, a study focused on the perceptions of Bulgarians towards the possession, use, trade, and control of SALW was conducted. A national representative crime victimization survey was carried out in November.
- One of the priority research targets in 2004 was the social and economic issues. A significant part of the studies and activities of Vitosha Research were related to the assessment of social projects, training in the field of social assessment, national and regional socio-economic assessments and surveys.

I. Social and Economic Surveys

A significant part of the work of Vitosha Research in 2004 comprised social and economic surveys. Some of the main project theme areas included:

- study of the investment climate and administrative costs in Bulgaria,
- survey of the business sector on problems related to present regulatory regimes,
- study of the innovation potential and needs of the Bulgarian industry,
- study of the financial industry.

The social surveys were focused on:

- the labor market and the provision of social services in exchange for new jobs,
- social-economic research in regions for prospective development of mining industry projects.

1. Study of the Investment Climate and Administrative Costs

The study of the investment climate and the administrative costs in the country was assigned to Vitosha Research by the World Bank and the Council of Ministers of the Republic of Bulgaria. The purpose of the Vitosha Research project was to examine the costs and restrictions imposed on private business, by laws and administrative regulations and procedures. The survey helped the government understand the difficulties that private businesses in Bulgaria face, and stimulated reforms of burdensome and restrictive policies. The research contributed to the development of programs and policies, related to the regulation of private

business in Bulgaria. The key project outcomes include:

- Analysis of the specific problems of small and medium-sized companies;
- Evaluation of the quality of management and the delivery of public services related to the main procedures and formalities that Bulgarian companies face;
- Ranking of the costs, imposed on companies by administrative and regulatory procedures, and identifying cases of superfluous expenditures that might be reduced through reforms and innovations;
- Setting the basis for a follow-up monitoring and self-assessment by government agencies of the effects of the implemented reforms.

2. Business and Regulatory Regimes

The Ministry of Economy contracted Vitosha Research to conduct a national representative study of businesses in Bulgaria. The main project goals were:

- 1) To analyze the problems that Bulgarian businesses face, related to licensing, authorization and registration regimes of central and local governments' administrations.
- 2) To formulate ways and means for improving the work of the institutions responsible for the control on the different regulatory regimes.

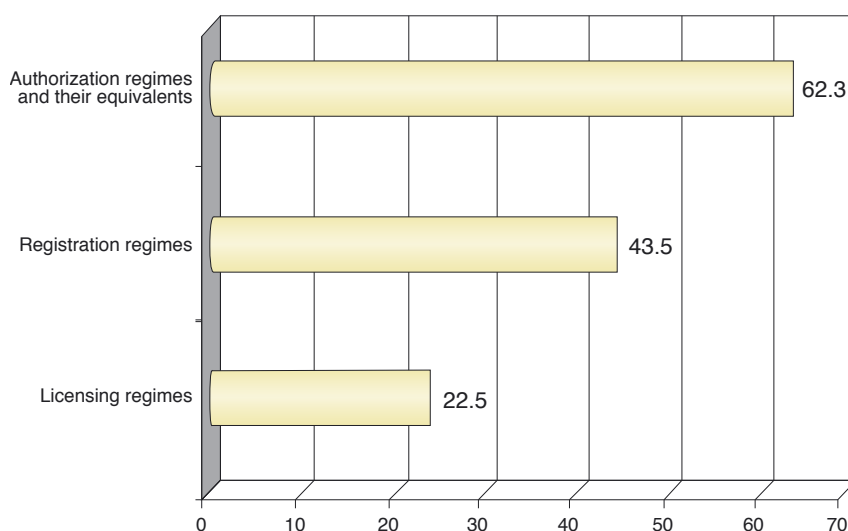
Personal standardized interviews were used to survey 538 Bulgarian companies. The survey results pointed to the following conclusions:

- Regardless of the activity and the economic sectors of each of the

surveyed companies, they all have encountered problems related to obtaining permits and licenses, regulating their business activities.

- Six main requirements were found to create most difficulties for businesses: sanitation license from the Hygiene and Epidemiology Inspectorate; company registration; building permit; building-usage permit; State Veterinary Control Directorate permits; commercial road-transport permits.
- Businesses indicated that three main difficulties in obtaining any type licenses or permits were: the long wait in obtaining them, the large amount of documents and requirements necessary for obtaining the individual permit/license, and the need of presenting documents that the public servants could easily obtain from other departments within their administrations.
- Business representatives consider that most regimes should be changed because in their present state they create numerous obstacles, are time-consuming and impose additional costs on the companies.
- The suggested reforms of the regimes were mostly related to facilitating the bureaucratic procedures by reducing and unifying the number of requirements for the issuance of permits and documents. The respondents expressed support for “one stop shop” administrative services that would save companies time and resources.

Chart 1. Share of Bulgarian companies that find regulatory regimes problematic



Source: Vitosha Research, *Business and Regulatory Regimes*

3. Innovation Potential and Needs of the Bulgarian Industry

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

4. The Hidden Economy in Bulgaria.

In 2002 Vitoshka Research launched a project on *Monitoring the Size and Dynamics of the Hidden Economy in Bulgaria (MHE)*. The work on this initiative continued in 2004 when Vitoshka Research conducted a survey

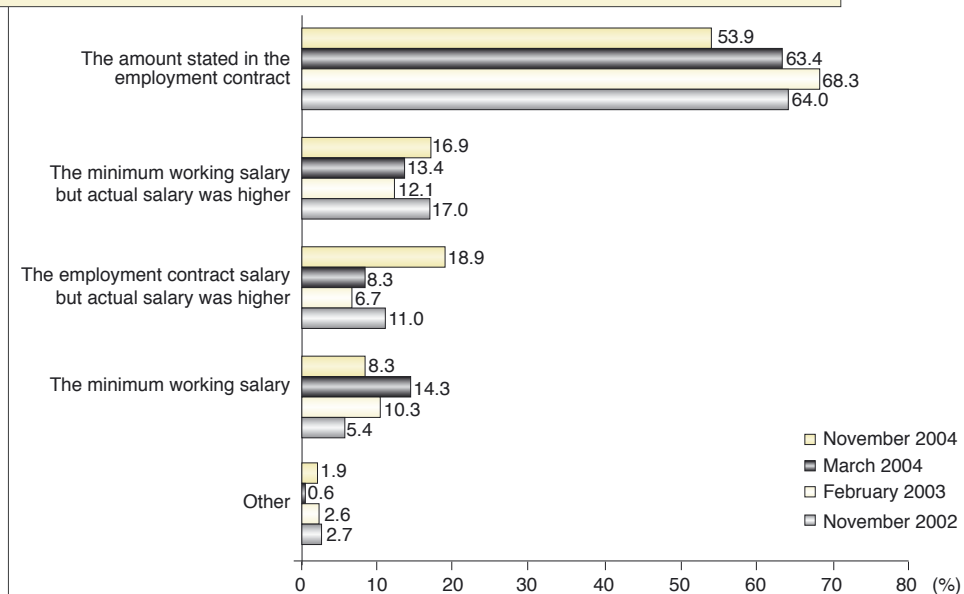
among businesses and two national representative population surveys. The surveys allowed for the indexes of the hidden economy, the main MHE product, to be updated. The indexes represent the dynamics of different aspects of the hidden economy and fall into two categories:

- I. *Unrecorded economic activity*: employment and hidden turnover.
- II. *Barter economy and part-time (household) farming*: employment, incomes and consumption.

The main results of the surveys were summarized in three reports. The most important conclusions of these studies were:

- For a period of two years a stable trend is observed towards an increase

Chart 2. Share of employed individuals whose social security contributions are paid (in %)



Source: Vitoshka Research, *The Hidden Economy in Bulgaria* (Survey among general population)

of the share of the active population, engaged in contract labor. In turn, there is a significant reduction of the share of people engaged in *activities related to part-time farming*;

- Following the government's introduction in the beginning of 2004 of measures to strengthen the regulation of the labor market, the hidden economy in labor relations was significantly restricted. After the initial reactions to the measures adopted by the government subsided, however, there has been a rebound to some forms of unregistered employment. An increase is seen both in the cases of additional paid work without a contract, as well as in the share of people whose social security payments are made on a lower than their actual salary;
- In only nine months (March–November 2004) the share of employed individuals, whose *social security contributions were paid* on the basis of an amount that was lower than their actual salary, increased from one fifth to over one third;
- The studies showed that to some respect one observed a return to the prior levels employment fraud in respect to both – not registering work contracts and evasion of social security and health contributions payments. For one in ten employees *no social security was paid* at all. The share of those for whom *no health insurance contributions were paid* also grew slightly;
- One of the most noticeable and stable trends in the last two years was the lasting drop in the share of cases in which no receipts or invoices are issued for purchases made or services used.

5. Employment of Social Welfare Recipients Project

The program of the Ministry of Labor and Social Policy, called *From Welfare Assistance to Employment* (a project that provides individuals with low-paid government jobs that make them eligible for social welfare assistance) was initiated and implemented with the support of the United Nations Development Program. Vitosha Research was asked to conduct a survey that examines the possibility for expanding the government program in four new municipalities.

A survey was carried out in twelve municipalities located in six different regions. The municipalities were chosen due to their high share of unemployed, handicapped people, senior citizens, unemployed university graduates with degrees in education, medicine, and the humanities. The study was carried out through a combination of quantitative and qualitative methods: personal standardized interviews, personal semi-structured interviews and desk research. The main highlights of the project include:

1. Completing a needs assessment for the implementation of the project in each of the twelve municipalities. The focus was on the local significance and currency of the project;
2. An evaluation of existing and necessary resources for the implementation of the project;
3. Projecting a forecast of the main threats and opportunities to the project implementation (SWOT analysis);
4. Conducting a comparative analysis of the existing socio-economic data for each municipality.

6. Socio-Economic Survey in Krumovgrad

Between July and August 2004 a thorough socio-economic survey was carried out among the population of the Krumovgrad municipality. The surveyed communities fell within the impact area of the planned construction of a mine in a locality known as Ada Tepe. The main purpose of the study was to collect, through interviews and desk-research, exhaustive data on infrastructure, demography, education, unemployment, social services and social programs in the impact area.

7. Socio-Economic Survey in the Municipalities of Zlatitsa, Pirdop, Chelopech and Chavdar

As part of a mine development project in the village of Chelopech, Vitosha

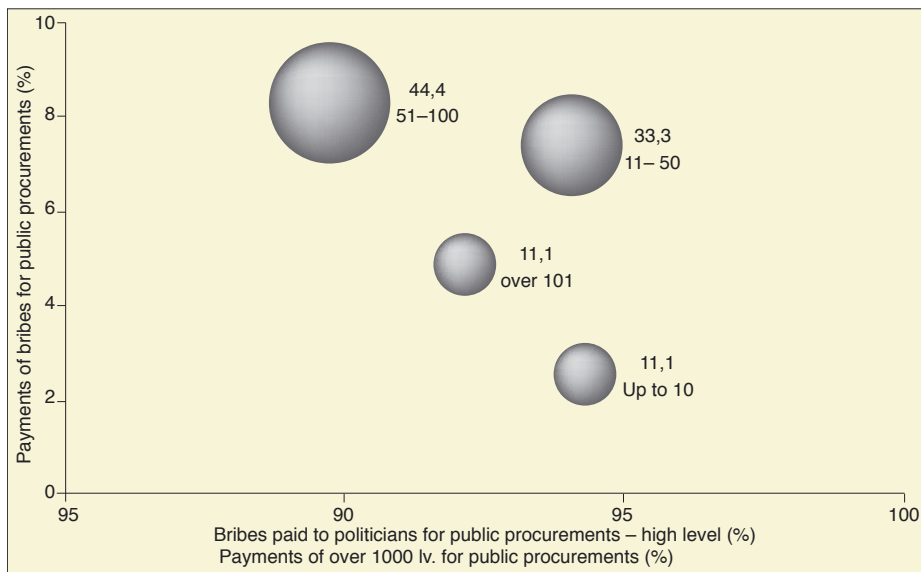
Research carried out a socio-economic survey of the municipalities of Pirdop, Zlatitsa, Chelopech and Chavdar. Again in-depth interviews with local government and community members and desk research were used to collect data on local infrastructure, demography, social-assistance, ecology and economy.

II. Study of Corruption

1. Corruption Monitoring System of Coalition 2000

The Corruption Monitoring System of *Coalition 2000* (CMS) was developed and implemented by Vitosha Research in the period 1998-2004. CMS includes a set of qualitative and quantitative surveys, targeting different social groups. In 2004 Vitosha Research continued

Chart 3. Size of unofficially paid sums for winning public procurements depending on the size of the company



Source: Vitosha Research, *Corruption Monitoring System of Coalition 2000*

conducting studies on the spread of corruption in the country, attitudes to it, and assessments of corruption among the population, business circles and public servants. A total of five surveys were carried out—two national representative studies among the adult Bulgarian population, two surveys among businesses and one among tax officials.

Jointly with *Coalition 2000*, four press conferences were held, at which the results of the surveys on corruption among the population, the business sector and tax officers were presented. The research data was summarized in six analytical reports.

2. The Role of Informal Networks in Socio-Economic and Political Life in Bulgaria (2004 – 2005)

The project is carried out in Bulgaria, Romania, Slovenia and the Czech Republic under the leadership of the Norwegian Institute for Urban and Regional Research. The main objective of the project is to establish the role of informal networks in politics, the economy, the judicial system and public life. Their positive and negative aspects are analyzed from the point of view of the establishment of the principles of lawfulness, transparency in government, freedom of speech, civic participation and the establishment of a functioning market economy in Bulgaria. In 2004 Vitosha Research conducted 90 in-depth interviews with government members and national representatives, Bulgarian and foreign businessmen, representatives of the media, of Bulgarian and international non-governmental organizations, and structures of the European Union and of the Council of Europe in Bulgaria.

During the second stage of the project, a round table was held for presenting,

discussing, interpreting and supplementing the results from the survey of informal networks in Bulgaria. A general comparative analysis was made of the interviews conducted in the four countries, included in the research. In the forthcoming third stage of the project Vitosha Research will conduct a quantitative study among representatives of the Bulgarian elites

3. Survey of Ministry of Interior Officers

In 2004 a second survey was carried out among employees in the Ministry of Interior (MoI) on the problems of corruption (Vitosha Research conducted the first survey in 2003). The main goal of the survey, carried out as part of a twining project between the MoI and the UK Home Office, was to assess and analyze the level of knowledge, understanding, confidence and support among the employees of all MoI agencies with regard to the MoI's Anti-corruption Strategy.

The two surveys provide an opportunity to identify the trends in the opinions and attitudes of MoI employees regarding corruption. The main points of the analysis included:

- An assessment of the general levels of corruption in the country and in the MoI system;
- Spread of corruption in the different MoI agencies;
- Main factors favoring the spread of corruption in the MoI;
- Practical effectiveness of corruption (the extent to which corruption is an efficient mean of addressing personal problems);
- Social values and corruption;

- Corrupt practices;
- Future expectations for curbing corruption and anti-corruption measures.

III. IT Surveys

In 2004 Vitosha Research continued to study the trends in the development of information technologies (IT) in Bulgaria and monitor their penetration in businesses, government administration and households. Current data about the monitored indicators was collected in a series of omnibus surveys. In addition, two surveys were carried out among representatives of the business sector. Data was obtained enabling a comprehensive assessment of the development and spread of IT in Bulgarian society and in areas, such as:

- access of citizens and businesses to computers and the Internet,
- size and structure of Internet consumption,
- extent and forms of use of the Internet by the population and businesses,
- e-commerce and businesses,
- entry of the Internet and new technologies in education establishments,
- provision of e-government services.

1. The Information Society in Bulgaria – Current State, Trends and Development

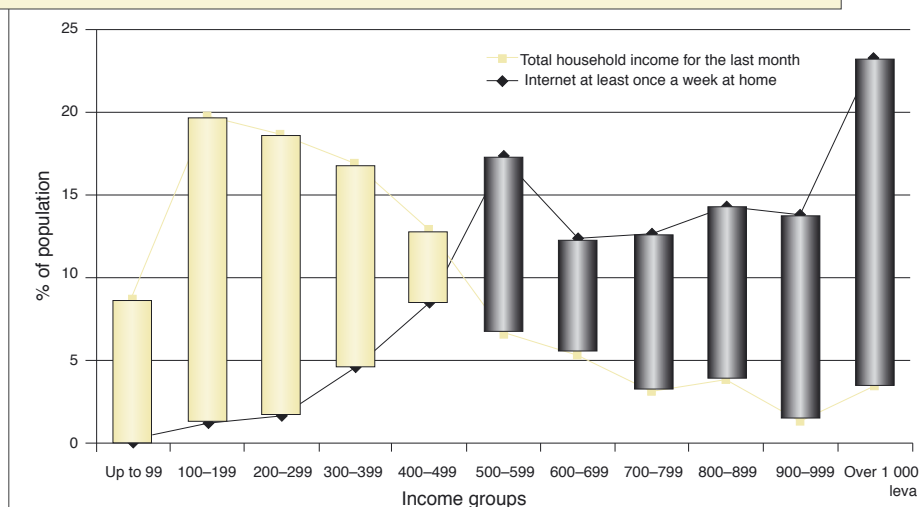
This project is implemented jointly with the Ministry of Transport and Communications. At the end of 2004, Vitosha Research collected data on a number of indicators, characterizing the information society in Bulgaria. The findings portrayed the population's use of IT technologies:

- Approximately, 27% of the people have Internet access at work.
- Almost twice higher is the share of those who have access to the Internet at home – 45%;
- The increased use of the Internet has wider economic implications. Some 3.8% of the respondents have bought and sold goods or services on the Internet in the previous three months;
- Those who use the Internet at school or university total 4.0% of the general population. There is one school computer for an average of 36 to 47 students;
- 0.4% watch television on the Internet;
- 6.2% use the Internet at least once a day;
- 29.3% of companies in Bulgaria have their own website. Twice more have access to the Internet.

2. Assessment of the Website of the World Bank Mission in Bulgaria

The main aim of the project was to evaluate the draft design of the new website of the World Bank mission to Bulgaria. Eight focus group discussions were held with students, post-graduates, researchers, government administration officials, non-governmental organizations representatives, journalists and businessmen. Extensive information was collected about the impressions, opinions, evaluations and recommendations of the participants in the study for the improvement of the website's format, structure, functions, contents, navigation, and possibilities for communication with the World Bank.

Chart 4. Income distribution of people using the Internet at home at least once a week



Source: Vitosha Research, e-Bulgaria 2004

IV. Public Opinion and Elite Surveys

Public Opinion Surveys

1. Eurobarometer

A national representative Eurobarometer survey focused on the general attitude of the Bulgarian citizens towards the European Union (EU), their opinion and assessments of the process of the European integration of Bulgaria and other relevant socio-economic and public themes was carried out in 2004. The comparative data and summarized results of the research conducted in Bulgaria and in the other EU candidate countries are being published by the European Commission.

2. Bulgarian Public Opinion Polls

The survey of public opinion in Bulgaria was assigned to Vitosha Research by the "Princeton Survey Research Associates". The main task of the research was to poll the Bulgarian citizens on different

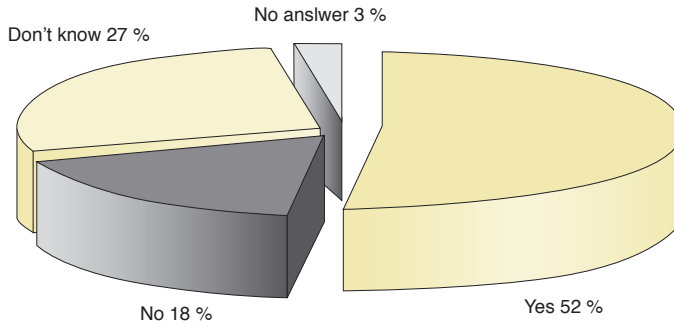
national and international problems. The following issues were examined:

- The most acute problems facing the respondents and their families;
- The most serious problems facing Bulgaria;
- The most important threats to the world;
- Assessment of the current economic situation in Bulgaria;
- Attitude to globalization;
- Assessment of the influence of different foreign companies on the development of the country, etc.

3. Public Perceptions on Small Arms and Light Weapons (SALW) Issues in Bulgaria.

In 2004, as part of a regional project of the South East Europe Clearinghouse

Chart 5. Do you think that Bulgarian citizens have more firearms than they should?



Source: Vitosha Research, Public Perceptions on Small Arms and Light Weapons

on Small Arms and Light Weapons (SEESAC), Vitosha Research and CSD conducted four surveys that examined the spread, the impact, the public perceptions, and the control over small arms and light weapons (SALW) in Bulgaria. Vitosha Research conducted the public perceptions survey, which analyzed the perceptions and attitudes to firearms, the reasons for possession, the ideas of their spread, the effect of the arms situation on the sense of security in the country and the attitude to the regulation and control over production, trade, and possession of firearms. The survey included focus group discussions and a quantitative study.

4. Crime Victimization Survey

In 2004 Vitosha Research carried out a study of the victims of crime in Bulgaria. The survey used the methodology developed by UN to conduct International Crime Victimization Surveys. The aim of this survey was to study the different aspects of crime, the frequency of victimization, the victims' perceptions of the severity of the crimes, assessment of the actions of the police, etc. On the basis of the collected

information an attempt will be made to map out measures for the effective counteraction to the different forms of organized and street crime.

Elite Surveys

1. The Bulgarian Elites

The aim of the survey was to study the opinions, assessments, attitudes of Bulgaria's elites to some current issues of economic and political life in Bulgaria. The survey was conducted among 768 representatives of the political, business, scientific, media and arts elites in Bulgaria.

2. Bulgaria's Image among Foreign Citizens and Businessmen

As part of an initiative of The Ministry of Economy Vitosha Research carried out a survey among foreign citizens and businessmen who have lasting relations with Bulgaria. The survey was part of the **Promoting Bulgaria** project, which is conducted jointly with other ministries within the framework of the Communication Strategy for accession to the European Union. To help design

a successful strategy for promoting Bulgaria to the world the survey studied the image of Bulgaria among foreign citizens that live permanently or temporarily in Bulgaria, businessmen working in or with Bulgaria, and return tourists .

IV. Marketing and Media Surveys

The marketing and media surveys covered mainly the following areas:

- The consumption of alcohol and spirits;
- The consumer drug market in Sofia;
- The insurance market in Bulgaria;
- The automobile market in Bulgaria;
- The banking sector in Bulgaria;
- Telephone services;
- Assessment of an exhibition of information technologies – Byte Expo.

In 2004 Vitosha Research carried out several media surveys, such as a study of the television audiences in Bulgaria, monitoring of the BBC audience in Bulgaria, or monitoring of advertisements on *New Europe* radio.

V. Publications

The results of the surveys conducted in 2004 were summarized in over 20 analytical reports, some of which are:

1. Informal Networks in Bulgaria, June 2004
2. The Hidden Economy in Bulgaria, March 2004
3. Corruption Indexes of *Coalition 2000*
4. Administrative and Regulatory Costs and the Investment Climate in Bulgaria, May 2004
5. Problems of Bulgarian Business, Proceeding from the Endorsed Regulatory Regimes, June 2004
6. Study of the Possibilities for Expansion of the Project “Social Services Against New Employment” in New Pilot Municipalities, June 2004
7. Analysis of Focus Groups on SALW Issues in Bulgaria, August 2004
8. Bulgaria’s Image among Foreign Citizens and Businessmen, November 2004
9. Assessment of the Bulgarian Website of the World Bank, March – June 2004
10. Country WID Profile – Bulgaria, December 2004
11. Baseline Socio-Economic Survey in Krumovgrad Project Impact Area, October 2004

European Program

The new security challenges of corruption, terrorism, and organized crime are now of concern to an increasing number of international institutions, particularly in Europe. For several years now, CSD's European Program has focused its work on the Bulgarian and Southeast European (SEE) perspective towards the changing role of these institutions in the field of security. Combining policy dialogue, expert analyses, and policy recommendations CSD has been trying to stay ahead of developments of soft-security challenges.

I. Facilitating Policy Dialogue

In 2003, CSD started its series of annual security conferences focused on Southeast Europe. Much remains to be done about the stability of the region and CSD is providing a platform where government officials and independent

experts could hammer out the vision and the policies to sustain security. The public-private format of the conferences – attended by NATO's Secretary General and Deputy Secretary General, high ranking officials from international and European institutions, SEE ministers of defense and interior, NGO leaders – is particularly appropriate to address non-traditional security challenges. Corruption, smuggling and organized crime have been among the key issues discussed at the conferences.

The second international security conference **NATO, EU and the New Risks: A Southeast Europe Perspective** was held on October 29-30, 2004 in Sofia with the participation of NATO Deputy Secretary General and five SEE ministers of defense and interior. The conference, jointly organized with NATO, the Norwegian government and



Dr. Ognian Shentov, CSD Chairman, opens the conference. Next to him: Mr. Plamen Panayotov, Deputy Prime Minister of Bulgaria, Amb. Alessandro Minuto Rizzo, NATO Deputy Secretary General and Amb. Boyko Noev, CSD European Program Director

the Bulgarian ministries of defense, interior and foreign affairs, aimed to generate further substantial debate on today's security situation in Southeast Europe. While focusing the attention on the Western Balkans participants in the conference emphasized the importance of continued assertive involvement of the international community, particularly NATO and the EU. The forum was attended by more than a hundred representatives of Bulgarian state institutions, NGOs and academics and around 50 journalists from the region. The event was reported in 30 articles published in Bulgarian and foreign media.

In his keynote speech NATO's Deputy Secretary General, Ambassador Alessandro Minuto Rizzo, stressed that security and stability in South East Europe is challenged by organized crime, corruption, illegal migration, human trafficking and the unlawful trade in small arms. As a result, there is also an increasing appreciation of the significance of the rule of law for

security and stability, a point argued by CSD for some years.

One of CSD's longest traditions is being the facilitator of discussions on key policy issues on Bulgaria's Euro-Atlantic agenda. Throughout the year the European Program organized a number of visits and lectures by foreign experts. As part of its partnership with the US Embassy in Bulgaria the CSD continued the series of lectures of experts on countering trans-border crime and the development of the trans-Atlantic relations. In 2004 the Center hosted several lectures of prominent experts from leading US media and academic institutions.

- The Philadelphia Inquirer reporter George Anastasia took part in a discussion on the role of the media in the fight against organized crime on *September 29, 2004*.

CSD's European Program also aims to provide specific professional communities in Bulgaria and Europe and the US.



Mr. George Anastasia, Philadelphia Inquirer reporter (left) and Mr. Boyko Todorov, CSD Program Director

Particularly active this cooperation is with the Ministry of Defense, Ministry of Interior, the Defense and Staff College and the Military University. In 2004, CSD's European Program was both facilitating the participation of defense officials in policy discussions with representatives of foreign governments and international institutions, and providing the security sector with specific training assistance.

As part of a cooperation agreement with the Ministry of Defense, CSD organized training seminars for lecturers at the National Defense University (NDU) faculties and the Bulgarian Armed Forces officers aimed to enhance their capacity to deliver anticorruption courses to NDU students and conscripts. The seminars were part of a long-term anticorruption program for Bulgarian security officers, featuring an exchange of experience between Bulgarian and foreign security experts. The June seminar *Countering the New Security Challenges: the Experience of Norway and Bulgaria* made a significant contribution in this regard. It included participants from

the Norwegian Criminal Investigation Service (KRIPOS), the Norwegian Institute of International Affairs (NUPI), the Bulgarian National Service for Combating Organized Crime and the Ministry of Defense.

On 21-22 October 2004 CSD hosted an anti-corruption seminar for lecturers at faculties of the National Defense University with the participation of experts from the General Headquarters of the Bulgarian Armed Forces and the Ministry of Defense. The seminar covered the following issues:

- Definitions, scope and forms of corruption.
- Corruption monitoring
- System of planning, programming and budgeting at the Ministry of Defense
- Countering corruption in the state administration
- Grey economy, contraband and corruption



Ms. Signe Arnesen, Police Advisor, Norwegian Institute of International Affairs (NUPI) (left) and Mr. Jan Nybakk, Superintendent, Norwegian Criminal Investigation Service (KRIPOS) (right) spoke at a CSD seminar **Countering the New Security Challenges: the Experience of Norway and Bulgaria** in June



Combating Corruption in the State Administration and the Security Forces Workshop, December 16, 2004.

From left: Mr. David Wolstenholme, Pre-Accession Advisor, Ministry of Interior of Bulgaria, Mr. Lyubomir Robov, Deputy Director, Inspectorate Directorate, Ministry of Interior and Lieut. Gen. (ret.) Chavdar Chervenkov

During 2004 there was a marked increase in the interest among policy makers and government experts in the countries of the Western Balkans towards Bulgaria's experience in reforms, related to NATO and EU membership. To meet this interest, CSD's European Program worked with officials from the Bulgarian Ministries of Foreign Affairs, Interior and Defense to enable the transfer of their experience to their counterparts in Macedonia, Serbia, Croatia, Bosnia and Herzegovina and other countries.

In December CSD jointly with the Ministry of Foreign Affairs of Bulgaria organized a workshop on *Combating Corruption in the State Administration and the Security Forces* for more than 40 experts from the Ministries of Foreign Affairs, Defense, Interior and Justice, from the Customs Administration and the Prosecutor's Offices of Macedonia, Croatia, Serbia and Montenegro, Romania and Bulgaria. The workshop

was held under the *Memorandum for Cooperation in the Field of European and Euro-Atlantic Integration between the Government of the Republic of Bulgaria and the Government of the Republic of Macedonia*, and in the context of the Adriatic Charter. Following the opening remarks of Mr. Nikolay Milkov, Deputy Minister of Foreign Affairs of Bulgaria, a series of lectures by Bulgarian and foreign experts was delivered on various aspects of corruption, and the ways to prevent and counteract it.

II. Policy Studies

Organized Crime

Another area of work of the European program links the elaboration of innovative methods of analysis of the new security risks and the consequences for the Euro-Atlantic integration of Bulgaria. CSD remained the leading Bulgarian civil society institution working on issues related to organized

crime. With fighting organized crime being a top-priority issue to the European Union, CSD experts remained important source of knowledge and analysis for the Bulgarian government, foreign diplomats, as well domestic and international media. CSD experts gave numerous private and public briefings, interviews, and analyses on the issue. CSD experts also participated in various international conferences and events on organized crime, such as the 6th Colloquium on Cross-Border Crime: "Crime and Economy and Crime Economy" in Berlin.

At the Berlin Colloquium, Senior Analyst Tihomir Bezlov presented the paper **Drug Market and Drug Trafficking in Bulgaria** that was included in a volume of selected colloquium papers. Following the 2003 publication **The Drug Market in Bulgaria**, Tihomir Bezlov gave several lectures on the

drugs-related topics at the Ministry of Interior Police Academy and the Ministry of Foreign Affairs' Diplomatic Institute. He was also the co-author, with Cas Barendregt, of the report **Injecting Drug Users in Bulgaria**, which was published in August by the Sofia-based Initiative for Health Foundation.

In 2004 the European program completed a study in the area of monitoring and prevention of trafficking and corruption in Bulgaria. The main purpose of the study was to highlight the risk areas for corruption in border and trade-control systems and to make recommendations on improving them. The paper **Transportation, Smuggling and Organized Crime** analyses the infrastructure of the organized criminal groups involved in contraband practices and gives recommendations for improvement of the institutional and interagency cooperation.



*Public discussion **Transportation, Smuggling, and Organized Crime** (October 14, 2004)
From left: Mr. Assen Assenov, Director, Customs Agency, Mr. Roumen Stoilov, Deputy Minister of Interior, Dr. Ognian Shentov, CSD Chairman, Mr. Boyko Todorov, CSD Program Director and Mr. Stamen Tassev, Deputy Minister of Finance*



700 interviews were conducted with former and current border-guards, customs officers, MoI and police officials, truck drivers, traffickers, international consultants, and businesses. The report was presented at a public discussion in October. The discussion triggered a significant media interest and was referred to in more than 40 articles in local and international print and electronic media.

SALW Control

Of particular importance for the impact that the study made were the research methods employed. The independent evaluation carried out by CSD researchers of the border-crossings of Kulata, Kapitan Andreevo, and the Port of Varna was based on interviews customs officers and border guards on border-security and trafficking issues. Over

The Center continued its cooperation with the UK based organization Saferworld on issues related to the controls of small arms and light weapons (SALW). With its work on two research projects on SALW issues during 2003 and 2004, CSD became the leading civil society organization in Bulgaria working in the field of small arms. As a result, in 2004 CSD experts were

Chart 6. Illegal import of oil products



Source: *Transportation, Smuggling and Organized Crime*. CSD, 2004, p. 86



*Discussion on **Small Arms Proliferation and Organized Crime in Bulgaria** (April 5, 2004)
From left: Mr. Agron Sojati, Head of SALW Task Force, SECI Center, Gen. Roumen Milanov,
NSCOC Director, Mr. Tihomir Bezlov, CSD Senior Analyst and Mr. Boyko Todorov, CSD
Program Director*

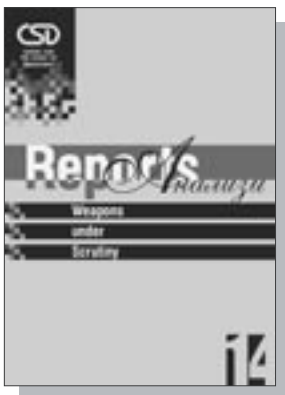
frequently invited as resource persons to a number of discussions in Bulgaria as well as in the CIS countries.

The analysis **Weapons under Scrutiny**, developed in 2003 jointly with Saferworld was presented to the public in April 2004. The work of CSD was aided by an expert working group that involved representatives of the Ministry of Interior, the Ministry of Economy,

the Ministry of Defense, the Ministry of Foreign Affairs, the Customs Agency, academics and arms control experts. The report examined the Bulgarian arms export control system and made a range of recommendations for the improvement of the export control legislative framework, the structure of the controlling government institutions.

Following the successful work on the issues of arms export controls, CSD and Saferworld were commissioned by The South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC) to write a *SALW Survey of Bulgaria*, which had four major components:

- **The Small Arms Distribution Survey** included data on the type, quantity, ownership, distribution and movement of SALW within the country or the region;
- **The Small Arms Impact Survey** analyzed the impact of SALW on different



members of the community and social and economic development;

- **The Small Arms Perception Survey**, conducted by Vitosha Research, gathered qualitative information on the attitudes of Bulgarians to SALW ownership, effects and usage and possible interventions;
- **The Small Arms Capacity Survey** assessed the government's capacity to conduct an appropriate, safe, efficient and effective SALW intervention.

As part of its work on the SALW surveys, CSD pioneered research on domestic gun control and gun crime. CSD researchers worked closely with Ministry of Interior agencies, such as the National Service for Combating Organized Crime (NSCOC), on analyzing gun crime data. Preliminary research findings were presented by Research Fellow Philip Gounev to an expert panel at a seminar, organized in November by the Bulgarian Committee of the Red Cross.

Information Centre on the Council of Europe in Sofia

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

Launching the European Year of Citizenship through Education

The Information Centre was involved in the activities linked to the official launch of the European Year of Citizenship through Education. In December (5.12.-22.12.2004) the IDCCE organized a book exhibition "Council of Europe's Latest Publications" in the Central Hall of St. St. Kiril and Methodii National Library. It was opened by Deputy Secretary General Maud de

Boer-Buquicchio, and by Mr. Slavomir Dabrowa, Ambassador of Poland. The ceremony was attended by diplomats, public officials, representatives of non-governmental organizations, and journalists. The Information Centre was also involved in the activities of the National Commission for the European Year of Citizenship through Education.



On December 13 the Deputy Secretary General Ms. Maud de Boer-Buquicchio opened the book exhibition of the IDCCE "New Council of Europe publications" at the premises of the National Library

Decentralization and Local Democracy

The seminar **European Policies of Regionalization and the South-Central Region in Bulgaria** was held in Plovdiv on April 15. It was co-organized by the Plovdiv Regional Authority, the Congress of Local and Regional Authorities with the Council of Europe and the CoE Information Center in Sofia. The forum was attended by representatives of the Ministry of Regional Development and Town Planning, as well as by some 60 regional governors, mayors, heads of departments at local administrations, professors, representatives of NGOs and journalists. The Chairman of the Chamber of the Regions of the Congress of Local and Regional Authorities Giovanni Di Stassi, charted the Council of Europe philosophy in matching administrative regionalization with the development of local democracy. He stressed that regions are treated as an active partner in the development of democracy in Europe.

Building Support for the Ombudsman Institution

Following the 2003 public discussion on the introduction of the Ombudsman Institution in Bulgaria, attended by the Council of Europe Secretary General Walter Shwimmer, another round-table was held in July, 2004 on *The Ombudsman Institution on National and Local Level: Bulgarian Experience in the European Context*. It was organized jointly by the IDCCE, CSD/*Coalition 2000*, and the Local Government Initiative. The discussion benefited from the participation of Dr. Hans Martin Tschudi, Vice-President of the Congress of the Local and Regional Authorities of the Council of Europe and Justice Minister of the Canton of

Basel, Switzerland. Mr. Tschudi shared the experience of the ombudsman institution in his own canton and in Switzerland in general, where this institution is an integral part of the democratic traditions.

International Conference on Conflict Prevention

The Information Centre and the United Nations Association of Bulgaria were the co-organizers of an international roundtable on "Crossborder Collaboration between intergovernmental organizations and civil society in prevention of violent conflicts" in July, 2004. The event was attended by more than 40 representatives of international organizations, NGOs from East and South-east Europe countries and the Caucasus region, diplomats and journalists. The deliberations were aimed at producing regional agendas for conflict prevention as well as to facilitate the establishment of an International Agenda, that will set the standard for seeking nonviolent solutions to conflicts and to foster the role of civil society in peace building.

Press-Conference on Cyber-Crime

The Information Centre also hosted a press-conference on the Council of Europe Cybercrime Conference held in Strasbourg from 15 to 17 September. The topics discussed included cyber terrorism, fraud, child pornography sites, data protection and copyright. Ms Anelia Angelova, senior expert at the International Department of the Ministry of Justice, Mr Dimitar Markov, CSD Law Program Project Coordinator and Mr. Nikolay Petrov, CSD's media advisor provided journalists with additional information on the Bulgarian legislation and European practices on cyber-crime.

Migration: Human Rights and Security

In September the IDCCE hosted a discussion on **Migration, Security and Human Rights** with a focus on the new approaches to regulating migration in Europe. The discussion profited from the participation of Ms. Denislava Simeonova, project coordinator at CSD's European Program and author of *Migration and National Security*, Ms. Rositsa Gencheva, expert with the International Organisation for Migration, Ms. Petya Karayaneva, UNHCR Office in Bulgaria, Ms Nadia Kozhuharova, Animus Association, Mr Georgi Karakolev, Academy of the Ministry of Interior, journalists, and representatives of student debate clubs.

Debating Contest for University Students

Students from several Sofia universities participated in a debate competition on Security and Human Rights organized by the IDCCE Sofia. The debated topics included: restrictions on civil liberties in the post 9/11 period, crisis migration and security, military intervention and human rights; terrorism and human rights. Six debate teams competed in three rounds on October 16, 17 and 23. The finals were on October 24th at the Ceremonial Hall of Sofia University and were attended by many students and journalists. The winners received awards provided by the Royal Norwegian Embassy in Sofia and IDCCE-Sofia.

Translations and Publications

Translations

1. The IDCCE translated a number of information articles for the Bulgarian

website in the Council of Europe portal. These included: "The Council of Europe in Brief", "Focus", Speech by the President of the Parliamentary Assembly of the Council of Europe "Building One Europe" (Schieder), Speech by the Secretary General, "Historical overview", "Key dates", "What's What", "The Council of Europe's Member States", "To Visit the Council of Europe", "The Parliamentary Assembly", "About the Committee of Ministers", "Bulgaria and the Council of Europe", "The European Court of Human Rights – Q & A"

2. The CoE Manual on European Citizenship (T-Kit Under Construction: Citizenship, Youth and Europe).
3. The CoE Manual on Intercultural Learning (T-Kit Intercultural Learning).

Publications

1. The brochure entitled *Have you heard of the European Charter of Local Self-Government?*



2. *The Council of Europe Manual on European Citizenship* (T-Kit Under Construction: Citizenship, Youth and Europe).

3. Information briefs

On December 5 The Secretary General of the Council of Europe Mr. Terry Davis visited the IDCCE and discussed its past and future activities.



From left to right: Ms. Dimitrinka Slavtcheva, Documentalist, IDCCE, Mr. Terry Davis, Secretary General, Council of Europe, Dr. Emil Tzenkov, IDCCE Director, Mr. Jean-Loius Laurens, Director, Private Office of the Secretary General and the Deputy Secretary General, Mr. Jack Hanning, Head of Relations with International Organizations and Non-Member States, Council of Europe

Coalition 2000

CSD has been the Secretariat of *Coalition 2000* since its launch in 1998. A significant shift has taken place in the anti-corruption environment in Bulgaria since then. Government no longer denies corruption exists and is ready to take action, the public no longer puts up with rent seeking from public servants, and oversight institutions are starting to make a difference. Public service corruption has declined to almost a third of its scope in 1998 – as evidenced by the *Coalition 2000* monitoring, corruption transactions have been reduced from a monthly average of 250,000 in 1998 to 90,000 in 2004. The improvement in the spread of corruption has also been registered by the Corruption Perception Index (CPI) of Transparency International. Bulgaria has been slowly but steadily improving its CPI score – from 2.9 in 1998 to 4.1 in 2004, now ahead of all EU candidate countries, even outperforming some current member states (Poland, Latvia and Slovakia).

Coalition 2000's 2004 priorities included:

- corruption assessment and anti-corruption policy reform
- establishment of the national and local ombudsman offices;
- anti-corruption education for high schools and universities;
- building civil society capacity against corruption.

Coalition 2000 is one of the most prominent examples of a private-public partnership in the area of anticorruption in South Eastern Europe. ... It is an all-inclusive platform combining the input and efforts of various stakeholders irrespective of their political or institutional affiliations. The partnership has developed a Corruption Monitoring System (CMS) to serve as a special tool for diagnosing corruption. [...] Coalition 2000 also has completed a best practices initiative on a local level. [...] The anticorruption initiative promotes participation by civil society in applying mechanisms of civil control over the state, especially with respect to carrying out the National Anticorruption Strategy for Bulgaria for the period 2001–04. [...] The experience of Coalition 2000 demonstrates that a determined citizenry can demand better government and turn the tables on those who are corrupt.

Building Market Institutions in South Eastern Europe, The World Bank, Washington DC, 2004, p. 76.

I. Supporting Anti-Corruption Policy

The Policy Forum is the Coalition's main public-private platform. The Forum, organized annually by *Coalition 2000*, is a high profile public event bringing together civil society and government institutions in the fight against corruption. On February 17, 2004

the *Coalition 2000* Policy Forum brought together over 150 representatives of the legislature, the executive, and the judiciary, the state administration, non-governmental organizations, prominent public figures, business, media, the international community and foreign missions to Bulgaria. The participants at the Forum discussed the fifth annual **Corruption Assessment Report 2003** (CAR). In the spirit of an already established public-private partnership the representatives of the government institutions and the civil society debated the anticorruption dimensions of judicial reforms, that were the focus of *Coalition 2000's* 2003 Report.

In his address, delivered on behalf of Prime Minister Simeon Saxe Coburg Gotha, Justice Minister Anton Stankov emphasized the positive developments in curbing corruption, tightening of customs control and the efficient anti-smuggling actions ensuing from the cooperation between government institutions. The contribution of *Coalition 2000* as an organizer of the public-

private debate on these significant issues was also highly appreciated. On behalf of USAID Bulgaria Mission Director Debra McFarland highlighted the importance of judicial reform being an inclusive process involving all branches of government and civil society with magistrates in the lead. Ms. McFarland pointed to the continued support of the US government of Bulgaria's efforts to improve judicial governance and make its judiciary more transparent and accountable.

The 2003 Report made a general evaluation of the state and dynamics of corruption in Bulgarian society and of anti-corruption efforts in the year 2003 emphasizing the anti-corruption dimensions of judicial reform in Bulgaria.

The level of corruption in Bulgaria did not change significantly in 2003. Corruption is still perceived to be one of the gravest problems of society. This is indicated by the Coalition 2000



From left to right: Mr. Jose Lopez-Jorriin, Ambassador of Spain to Bulgaria, Mr. Anton Stankov, Minister of Justice, Dr. Ognian Shentov, Chairman, Center for the Study of Democracy

Corruption Indexes, which measure the spread of corruption and the perceptions of the general population, the business community and analysts. ... The unchanged corruption level is in contrast to the Bulgarian public's expectations for improvement. This lack of development signals that the anti-corruption measures undertaken so far have been exhausted. In the last few years, anti-corruption efforts have, to a certain extent, succeeded, due to certain "soft" forms of curbing corruption, i.e., by means of extensive public pressure. However, none of the essential structural faults that breed corruption in various segments of society have been remedied.

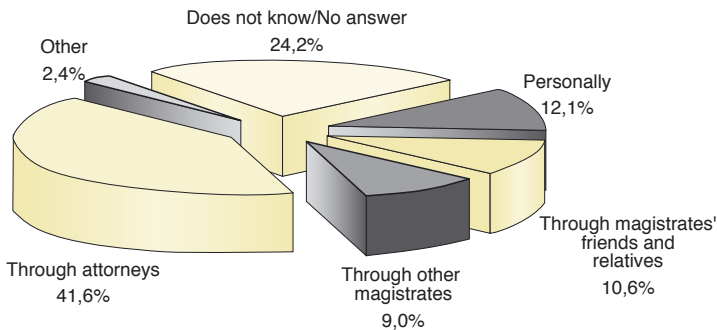
Corruption Assessment Report 2003, p.5

most areas affected by it – public administration, civil society, economy, etc. As the anti-corruption environment matured, in 2003 the Coalition decided to give its annual Corruption Assessment Report a narrower focus. Thus CAR 2003 looked in greater detail into the anti-corruption reforms in the Bulgarian judiciary.

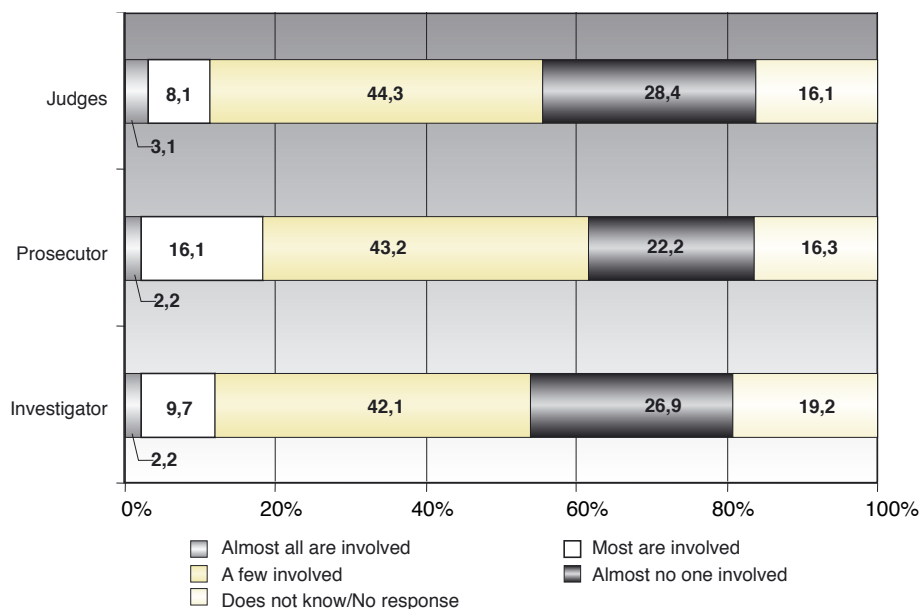
The Report incorporates the main assessments, conclusions and suggestions concerning the anti-corruption aspects of judicial reform laid down in the *Judicial Anti-Corruption Program*, a process similar to *Coalition 2000* initiated by CSD. At the same time, CAR—2003 stresses the links between corruption as a general issue and the need to establish an effective, stable and clean judicial system as the key rule of law instrument for curbing of corruption in society. This approach also seeks to bring about a consensus between decision makers on the general principles, as well as the particular immediate and long-term goals of judicial reform.

In the period 1998-2002, *Coalition 2000* carried out comprehensive assessments of anti-corruption in Bulgaria, covering

Chart 7. Corruption methods in the judiciary



Source: Corruption Monitoring System of *Coalition 2000*

Chart 8. Spread of corruption among magistrates (%)


Source: Corruption Monitoring System of *Coalition 2000*

II. Hidden Economy and Corruption

The hidden economy feeds corruption through various channels. One of the major sources of informality and unfair competition coming from hidden economic activity is the smuggling of consumer goods. The interaction between corruption and hidden economic activity also creates concerns in other public domains such as labor markets, public procurement, privatization and concessions, regulatory regimes, etc. In 2004 *Coalition 2000's* efforts in the area of hidden economy and corruption were concentrated on influencing Bulgarian and international policy debate through: (1) shaping public opinion through debate in the public media; (2) delivering policy recommendations to the national and local governments on reducing hidden

economy and corruption; (3) advising major international partner organizations (IMF, USAID) on effective assistance policies to support national anti-corruption and anti-hidden economy efforts; and (4) expanding the existing pool of knowledge and education on hidden economy and corruption.

In January 2004 *Coalition 2000* together with six major Bulgarian NGOs initiated and took part in the public debate on **improving governance at the Sofia Municipality**. The new Municipal Council Statutes, that by and large incorporated the entire range of recommendations made by *Coalition 2000*, were voted into force by the Sofia Municipal Council and resulted into an enhanced public access

to and control of Sofia Municipal Council and its standing committees. Improved transparency aided media investigations and the unveiling of several established corruption practices in the Sofia Municipality. The principles adopted by the Statutes guarantee better local governance through better interaction between the Mayor, the Municipal Council, NGOs, the business and the broader public.

On July 15, 2004 *Coalition 2000* and the Center for the Study of Democracy presented the book *The Hidden Economy in Bulgaria*. It includes contributions of experts from the National Social Security Institute, the Bulgarian National Bank, the National Statistical Institute, the Agency for Economic Analysis and Forecasting and the Center for the Study of Democracy.

The book adds value to the debate in three directions: (1) it estimates the hidden economy in Bulgaria using several different methods, (2) it gives a broader view of the



hidden economy phenomenon in Bulgaria for the past four years and assesses how it affects specific socio-economic spheres (labor market, domestic production, tax and social security system, black economy) and (3) it evaluates systematically the effectiveness government's policies to reduce the hidden economy and provides recommendations for further action.

On the labor market the informal economy has two manifestations –



From left to right: Mr. Todor Todorov, Director of National Economic Accounts and Balances Department, National Statistical Institute, Mr. Ruslan Stefanov, Project Coordinator, Center for the Study of Democracy and Mr. Petkan Iliev, editor of the book and Senior Fellow to the Center for the Study of Democracy

hiring employees without signing a formal, written contract or reporting for tax purposes lower than the actual salary of the employees (contracts with "hidden" clauses). In the period 2002 – 2004 the share of hidden employment (work without contract) shrank. One of the main reasons for this decrease had been the administrative measures launched by the Ministry of Labor and Social Policy for mandatory registration of all labor contracts and the introduction of mandatory minimal social-security thresholds for tax purposes in the beginning of 2003. At the same time the share of hidden remuneration (i.e. the prevalence of contracts with "hidden" clauses) increased. Also the majority of the newly mandatory registered contracts were primarily at the minimum wage level.

Tracking the Dynamics of the Hidden Economy – the Index of Hidden Economy

In 2004 *Coalition 2000* continued its work on tracking the dynamics of the hidden economy through the Index of Hidden

Economy. The index proved an effective tool for influencing public policy debate and for focusing government attention on the most pervasive problems the hidden economy creates in the country. The index gave a deeper insight into the nature and dynamics of the hidden economy in Bulgaria. While public policy has helped in bringing down hidden economic activity, there have been some worrying trends. High social security contributions continue to motivate businesses to hide labor income. Criminal businesses have remained active and have been quick in seizing new opportunity for siphoning public money. In 2004 they increasingly turned to VAT fraud and thus managed to offset successful policy responses in other areas.

III. Introducing the Ombudsman Institution

Coalition 2000 has been advocating for the introduction of the ombudsman institution in Bulgaria at the national and local level for more than six years.

Index of hidden economy: the business perspective

Hidden Economy	December 2002	March 2003	November 2003	April 2004
Overall Index	3.85	2.91	2.86	3.01
<i>Business Perception of the Share of the Hidden Economy in GDP</i>	4.60	3.96	3.66	3.86
<i>Hidden Labor</i>	3.98	2.79	2.76	2.86
<i>Hidden Turnover</i>	3.65	2.66	2.72	2.83
<i>Siphoning Public Money (VAT Fraud)</i>	3.15	2.24	2.28	2.48

It focused its efforts on setting the ground for the effective establishment of the institution through drafting of legislation, enhancing public awareness and implementing education and training activities.

Following the two unsuccessful attempts of the parliament to elect a national ombudsman during 2004, *Coalition 2000* engaged in supporting the establishment of the ombudsman institution. It initiated the development of a mechanism for consultations to facilitate the election of the ombudsman. The initiative aimed to stimulate an open dialogue among political parties and civil society organizations before the opening of the next ombudsman election procedure. The intention was to make the entire procedure more transparent and to contribute to the election of an ombudsman enjoying a broader support in parliament than the simple majority envisaged by the law.

No steps were taken by parliament or government to improve the existing legislation, which was criticized by non-governmental organizations and

experts as not providing guarantees for the impartiality and effectiveness of the ombudsman. However, through the efforts of *Coalition 2000* specific proposals and recommendations for legislative amendments were developed. To enhance the independence and stability of the ombudsman institution *Coalition 2000* developed draft amendments to the Constitution, to be submitted to the Ad-Hoc Parliamentary Committee on Amendments to the Constitution.

Having already contributed in 2003 to the elaboration and adoption of the legal framework of the ombudsman institution on national and local level, in 2004 *Coalition 2000* in cooperation with its partners paid special attention to promoting and supporting the establishment of public mediators on municipal level.

***Coalition 2000* capacity building tools for the local ombudsmen**

*Three Municipal training seminars
Human rights promotion and protection through the institution of the*



At a public discussion on the best European practices of the local ombudsman institutions, July 9, 2004: (from left to right) Mr. Henry Minis, LGI Program Director, Mr. Gene Gibson, Senior Advisor, USAID, Bulgaria, Dr. Hans Martin Tschudi, Vice-President of the Congress of Local and Regional Authorities of Council of Europe and Dr. Maria Yordanova, CSD Law Program Director

local public mediator were held in Ognyanovo (May 19), Varna (June 24), and in Shoumen (November 5). They have been organized by Coalition 2000 with active participation of the local partners' organizations. The training was instrumental for providing citizens with detailed information about the ways to approach the office of the local ombudsman, procedures for submitting inquires, experience accumulated in the country. The target group of the seminars were local authorities and local NGOs, office of the public mediator (if such Institution operates), citizens, media.

The partnership of NGOs and local authorities, created an environment that along with the legal framework – also developed with Coalition assistance – made possible the number of local public mediators around the country to increase. Three of the seven public mediators, operating at the end of 2004, were established and supported by Coalition 2000 grantee NGOs. The Coalition supports this process through education, expert consultations, supply of publications, and facilitation of experience sharing among elected mediators.

The local public mediators have already started considering citizens' complaints against maladministration in the respective municipalities. Their initial activities have improved the transparency and accountability of the local authorities. They have strengthened the civic control over local government and local self-government, fostered dialogue between citizens and local authorities, and improved the quality of public services.

IV. Anti-Corruption Education

Aiming to leave a lasting impact in the field of anti-corruption, Coalition 2000 has also been successful in bringing Bulgaria's young into the broader rule of law constituency. This was achieved by making anticorruption education in high schools one of Coalition 2000's priorities in 2004. Its work coincided with the governmental efforts to push educational reforms and with the endorsement of the national Strategy for Development of the Secondary Education in Bulgaria (2005-2010). At the beginning of 2004 Coalition 2000 led the establishment of an expert group tasked to assess the opportunities for introduction of anticorruption education as part of the civic education in secondary schools. The overall goal was the young people to receive information about corruption, and at the same time, to increase their knowledge about issues such as the role and functions of the state institutions, the formation of the state budget and taxes, the work of local authorities, the need for transparency and accountability in the work of state institutions, as well as their civil rights and obligations. As a result of these efforts, in the fall of 2004, the Ministry of Science and Education officially introduced an elective course on anticorruption in the secondary schools curriculum.



Coalition 2000 published a new edition of the 2003 educational manual *Anticorruption*. It created a basis for the development of a university anticorruption course, and for the integration of selected anticorruption topics in existing academic programs in the social sciences. This was an important step towards the introduction of the anticorruption as a subject in the Bulgarian higher education, including in the preparation of future teachers.



In 2004 *Coalition 2000* also published three teacher manuals assisting the introduction of anticorruption education in high schools. The *Corruption in 100 Answers* manual was offered to

school teachers to facilitate the teaching of an elective course on *Anticorruption*. Two on-line manuals were also developed: *Anticorruption and Citizenship* for students from grades 9th through 12th and a manual for assisting teaching of anticorruption in the secondary schools.

Since the beginning of 2004 experts and partner organizations of *Coalition 2000* have been working on the pilot introduction of the position of the school mediator (ombudsman). By the end of 2004 peer mediation was tested at three Plovdiv-based secondary schools.

Good practices in anticorruption education were also established by partner nongovernmental organizations in the framework of the *Civil Society Against Corruption* grants program of *Coalition 2000*. During the projects, the partner NGOs tested new models and methods for teaching anticorruption in high schools, preparing future teachers in civic and anticorruption education at the university level. They also designed extracurricular activities, such as visits to public institutions by students. Some of these projects also included surveys



that assessed the levels of corruption in higher and secondary education institutions and the benefits from introducing of anticorruption education in secondary schools. The survey results demonstrated a substantial interest about the issue by students, parents, teachers, and the school and university administrations.

The cooperation between *Coalition 2000* and the Department on Information and Teachers' Training at Sofia University in 2004 led to the introduction of a new continuing education course for teachers, *A Transparent Classroom – Aspects of Anticorruption Training and Education*.

V. Corruption Monitoring System

The Corruption Monitoring System (CMS) is an essential part of the implemented anti-corruption initiatives of *Coalition 2000* in Bulgaria. The CMS consists of a system of quantitative and qualitative monitoring instruments and was designed to generate information about the structure and dynamics of corrupt behavior, the scope and dynamics of corruption related attitudes, assessments and expectations of the general public, of public sector officials, and of specific social and professional groups. It allows policy makers and the public to gain knowledge about the actual volume of corrupt transactions as well as about public attitudes and expectations about the effectiveness government policies.

As a result mostly of *Coalition 2000's* monitoring system, corruption was acknowledged by political elites and recognized as a problem by the general public. The Coalition has shown not only that corruption can be measured but that measurement is crucial in its successful combat. The regular publication of data

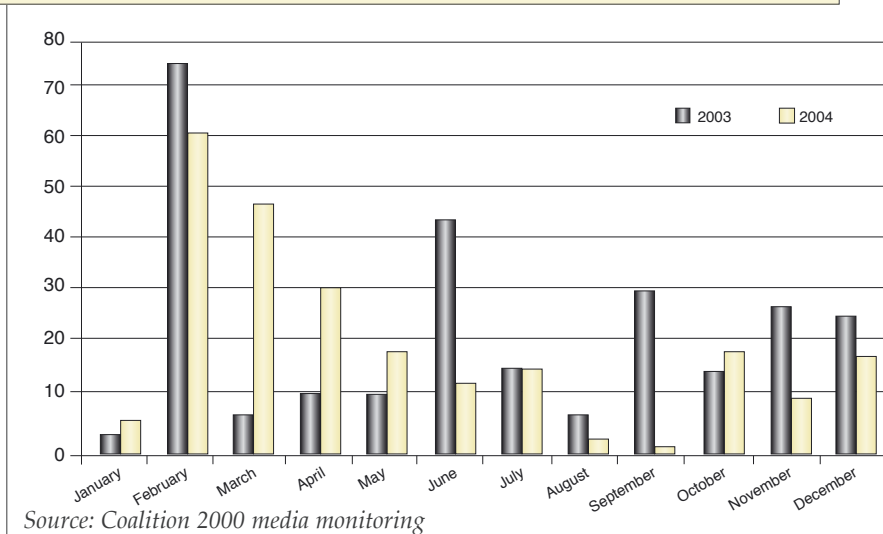
on the actual prevalence of corruption in society has given the public an instrument of advocacy and pressure, and has allowed government to better tailor its policies. *Coalition 2000's* monitoring system has been included as part of the UN Anti-Corruption Tool Kit and is routinely referred to by various international institutions, including the European Commission, World Bank, IMF, UNDP and others.

In March *Coalition 2000* presented the latest corruption indexes of the business sector based on a survey of businessmen in Bulgaria, conducted in February 2004. The conclusions of the survey were that susceptibility to corruption among the business sector remained high since the previous survey in November 2003. Businesses considered corruption as the major obstacle to their work. Other factors that businesses pointed to included the unfavorable conditions for business development and crime.

In June, *Coalition 2000* presented the results from a survey *Corruption Practices in the Tax Administration*. The study was conducted at all Territorial Tax Directorates and their subdivisions in the 28 regions of the country among 699 tax administration officials. The results obtained during the survey served as a basis for developing concrete measures and set of indicators, for monitoring the effectiveness of those measures, in cooperation with the tax authorities at all levels.

After a tangible drop in the perceptions of corruption among citizens and business registered in March 2004, the November round of corruption diagnostics showed return towards the higher average values, typical for 2003. This was valid for the cases of corruption pressure by public officials and for the realized corruption deals.

Chart 9. Number of media stories on *Coalition 2000* by month



The number of actual corruption deals in the public sector in November 2004 increased by about 20,000 cases per month in comparison to March 2004. One of the affected areas was local

government. This could be explained with the reallocation of bigger financial resources towards the local governments and the process of administrative and financial decentralization.



From left: Ambassador James Pardew, Embassy of the USA, Ms. Kristina Krasteva, 24 chassa daily, Mr. Iovo Nikolov, Capital weekly and Mr. Krassimir Dobrev, Sega daily

Second Award Ceremony for Best Journalistic Materials on Cases of Corruption

In March *Coalition 2000* announced the 2004 awards for best journalistic materials covering cases of corruption published or broadcast in Bulgarian media during 2003. The ceremony took place at the American Center in Sofia, where Ambassador James W. Pardew bestowed the awards to the winners. Eleven investigating journalists from eight media outlets competed for the second annual awards. The First Prize went to Ms. Christina Krasteva and Mr. Stanimir Vaglenov of the *24 Chassa Daily* for their November 2003 news-breaking story that caused a major political scandal about a corrupt deal for 11 municipal properties in Sofia. The second prize was awarded to Mr. Yovo Nikolov from *Capital Weekly* for an investigation on the illegal business of the assassinated Kossio Dimitrov-Samokovetsa and his political protectors, and his the trafficking chan-

nels. Third prize received Mr. Krasimir Dobrev from *Sega Daily* for the article: *Why Minister Tserovski is allowed to have a private company and his subordinate X – is not allowed?*

Civil Society against Corruption Program

In 2004, *Coalition 2000* engaged a significant number of civil society organizations in promoting anti-corruption education, the establishment of local ombudsman offices, and targeting corruption in specific public services. These were the priority areas for a Civil Society against Corruption program managed by the Center for the Study of Democracy.

The grants program assisted 24 NGOs in establishing local and specialized ombudsman institutions, piloting anti-corruption education in secondary schools and universities, analyzing the mechanisms of corruption in the public sector, conducting corruption percep-



Coalition 2000 grantees at a training session at the CSD. A key element of the civil society program was building the capacity of the participating NGOs.

tion surveys, supporting the activities of local anticorruption councils and fora, etc.

The achievements of the civil society against corruption program in 2004 included:

- *Election of a public mediator in Banite municipality, District of Smolyan and in Botevgrad municipality, Sofia District; conducting the necessary information and educational work; drafting and adoption of essential documents and procedures for election of public mediator in Razgrad municipality and in Kurdjali district;*
- *Elaboration of anticorruption curricula for the secondary schools and introducing practical exercises in civic education with anti-corruption aspect in Varna;*
- *Watchdog surveys and analysis of corruption practices with respect to building of anticorruption strategies in 10 academic institutions in the country, in the tax administration, etc.;*
- *Building of models for anticorruption public-private partnerships at the local level in Velinograd, Pernik, Stara Zagora and exercising civic control in the area of illegal construction.*

Part Two

Administration and Management

Administration and Management

Sound Management and Transparency

Sound management and administrative support are key to CSD's excellence in achieving its mission and delivering on its goals in research and program development. The Center strives to constantly build up management techniques and administrative procedures to meet the dynamic changes in the local and international environment. Bulgaria's upcoming EU membership creates vast new opportunities for development, but also requires higher management and administrative standards and a new scope of thinking taking into account the European as well as the national and local aspects. The increase in EU funds availability influences strongly the financial management of the NGO sector in Bulgaria in terms of developing new funding instruments (incl. turning to commercial consulting) and moving to more sophisticated accounting systems.

Accountability and transparency are the leading principles of CSD's financial and administrative management, which it continuously builds upon through a number of channels:

- releasing information on projects and activities in the mass-media;
 - publishing a range of print materials;
 - separating consulting from non-profit activities through establishing separate legal entities;
 - adopting written rules for its grant activities (Governing Board decision from 2002), etc.
- CSD is registered as a public benefit organization with the Central Registry of NGOs at the Ministry of Justice. Public benefit organizations are obliged by law to a number of additional reporting rules and undergo stricter financial and administrative scrutiny.
- In 2004 CSD continued its long-standing commitment to review and update its internal system of rules and regulations, which it applies in administrative and financial management, recruitment, accounting, etc., taking into account new legislative changes in the NGO sector and most recent international experience. The Center has established a number of internal formal and informal staff meeting opportunities to ensure continuous learning and feedback mechanisms.
- Following a process of consultations with employees and partners, in 2004 the Center developed its own Code of Conduct and Code of Ethics. These regulate issues such as appropriate behavior, organizational values and governing principles.
- publishing independent, annual audit reports (since 1992, CSD's financial statements and KPMG audit report for 2004 follow);
 - performing audits of individual projects (since 1992);
 - publishing annual reports (since 1994);
 - uploading detailed information on CSD's activities on its web-site;

Building Capacity in Civil Society

As one of the leading organizations in the NGO sector in Bulgaria CSD represents a model for the development of other non-governmental actors in the country. CSD has consistently transferred its know-how and best practices in administration and management to its partner organizations and the

NGO community at large. Following a 2002 Governing Board decision on the requirements for its grant operations, in 2004 CSD put a special focus into supporting the institutional capacity of the network of its partner non-governmental organizations and grantees. Technical support was provided to NGOs through a number of site visits in Sofia and around the country.

CSD grantees in 2004

Access Foundation, Sofia

Association Elisaveta Klark and Penka Kasabova, Sofia

Association Roditeli, Sofia

Association for Social Studies, Sofia

Board of Trustees of Dobri Chintulov Secondary School, Sliven

Bulgarian Association for Fair Elections and Civil Rights, Razgrad

Bulgarian Youth League Stefan Stambolov, Smolyan

Bulgarian Association for Out-of-court Conflict Resolution, Plovdiv

Center for Comparative Studies, Sofia

Center for Economic Development, Sofia

Center for Social Practices, Sofia

City and Culture Foundation, Varna

Civic Association for Fighting Corruption and Illegal Construction, Sofia

Culture Space Foundation, Sofia

Communities 2002 Foundation, Sofia

Paideia Foundation, Sofia

Future for Everyone Association, Sofia

Institute for Political and Legal Studies, Sofia

Institute for Economy and International Relations, Sofia

NGO Links, Sofia

National Youth Organization for Social and Economic Development, Stara Zagora

Regional Business Center for Supporting of SMEs, Pernik

Social Dialogue Foundation, Sofia

St. Kliment Ohridski Foundation, Sofia

In 2004, CSD employed 49 staff of which 40 were professional and management, including part-time consultants, and 9 were support personnel. The Center also works with a significant number of external contributors. CSD has been developing and implementing complex projects, which involve participants from the Center and outside experts and partners from the public and private sectors and the NGO community. CSD has been able to continuously streamline its activities and get the most from its donors' funds through a balanced leverage between in-house resources and outside expertise.

List of Staff

Governing Board

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

Senior Management

Boyko Todorov, Program Director
Lydia Mileva, Financial Manager

Economic Program

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

Law Program

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

Vitosha Research/Sociological Program

Andrey Nonchev, Coordinator
Martin Dimov, Senior Analyst
Ralitza Ruseva, Senior Analyst
Tihomir Bezlov, Senior Analyst
Slavianka Ivanova, Senior Analyst
Bogdana Dermendjieva, Analyst
Kalina Nedeva, Analyst
Stanislava Kotulova, Office Manager
Borislava Gerginova, Accountant

Information Centre on the Council of Europe, Sofia

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Dimitrinka Slavcheva, Assistant

European Program

Boyko Noev, Ambassador, Director
Denislava Simeonova, Project Coordinator
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Philip Gounev, Research Fellow
Milena Yordanova, Assistant

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Natalia Dimitrova, Secretary

Maria Karagiozova, Project Coordinator

Nikolay Petrov, Media Advisor

Administration

Mariana Yankova, Administrative Secretary

Christina Todorova, Executive Assistant

Nickolay Karshev, LAN Administrator

Tzanko Christov, LAN Administrator

Financial Department

Maria Georgieva, Accountant

Lazarina Andonova, Cashier/Bookkeeper

Technical Support

Dimitar Dimitrov

Boyko Tasev

Marin Kotzev

Alyosha Purvanov

General Assembly

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

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Michael Katz,	Dean of Languages and International Studies at Middlebury College, Vermont, USA
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William Meyer, Esq.,	Hutchinson, Black and Cook; Central and East European Law Initiative, American Bar Association

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Center for Economic Development (CPHR), Bratislava
Center for European Reform, London
Center for International Private Enterprise (CIPE), Washington DC
Center for Liberal-Democratic Studies, Belgrade
Center for Policy Studies, Belgrade
Center for Social and Economic Research, Warsaw
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Ministry of Foreign Affairs of Bulgaria
Ministry of Interior of Bulgaria
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Royal Institute for International Affairs, London
Sabre Foundation
Saferworld, UK
School of Slavonic and East European Studies, London
Stiftung Wissenschaft und Politik, Berlin
The Greek Ombudsman
United Nations Development Programme
United States Agency for International Development
United States Department of Justice
United States Department of State
World Bank

Part Three

Financial Review



CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2004

With Independent Auditors' Report Thereon



Independent Auditors' Report

To the General Assembly of
Center for the Study of Democracy

Sofia, 30 April 2005

We have audited the accompanying consolidated balance sheet of Center for the Study of Democracy ("the Organization") as of 31 December 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Organization as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev
Partner

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Consolidated income statement

For the year ended 31 December 2004

<i>In BGN</i>	Note	2004	2003
Revenue	2	2,510,851	3,655,336
Cost of sales	3	<u>(2,290,655)</u>	<u>(3,272,137)</u>
Gross profit		220,196	383,199
Other operating income		300	287
Administrative expenses	4	<u>(141,041)</u>	<u>(201,447)</u>
Operating profit before financing costs		79,455	182,039
Financial income		107,548	181,697
Financial expenses		<u>(159,123)</u>	<u>(313,356)</u>
Net financing costs	5	(51,575)	(131,659)
Profit before tax		27,880	50,380
Income tax expense	6	(13,213)	(36,094)
Profit for the period		<u><u>14,667</u></u>	<u><u>14,286</u></u>

The consolidated income statement of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 27.

Consolidated balance sheet

As at 31 December 2004

<i>In BGN</i>	Note	2004	2003
Assets			
Property, plant and equipment	7	2,008,733	1,159,804
Intangible assets	8	3,336	4,760
Investments	9	5,006	5,006
Other investments	10	-	588,862
Deferred tax assets	11	6,280	-
Total non-current assets		<u>2,023,355</u>	<u>1,758,432</u>
Inventories		236	192
Trade and other receivables	12	179,826	268,846
Cash and cash equivalents	13	1,064,520	1,540,956
Deferred expenses	14	40,081	19,847
Total current assets		<u>1,284,663</u>	<u>1,829,841</u>
Total assets		<u><u>3,308,018</u></u>	<u><u>3,588,273</u></u>
Equity		3,023,491	3,008,824
Liabilities			
Deferred tax liabilities	11	2,580	985
Total non-current liabilities		<u>2,580</u>	<u>985</u>
Trade and other payables	15	83,951	56,884
Deferred financing	16	175,826	463,727
Tax payables		22,170	32,161
Finance lease payable		-	25,692
Total current liabilities		<u>281,947</u>	<u>578,464</u>
Total liabilities		<u>284,527</u>	<u>579,449</u>
Total equity and liabilities		<u><u>3,308,018</u></u>	<u><u>3,588,273</u></u>

The consolidated balance sheet of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 27.

 30 April 2005
Vladimir Yordanov

Executive Director

Consolidated statement of changes in equity

For the year ended 31 December 2004

<i>In BGN</i>	Retained earnings
Balance as at 1 January 2003	2,994,538
Recognised profit for 2003	14,286
Balance as at 31 December 2003	<u>3,008,824</u>
Balance as at 1 January 2004	3,008,824
Recognised profit for 2004	14,667
Balance as at 31 December 2004	<u>3,023,491</u>

The consolidated statement of changes in equity of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 27.

Consolidated statement of cash flows

For the year ended 31 December 2004

<i>In BGN</i>	Note	2004	2003
Cash flows from operating activities			
Cash receipts from customers/ donors		2,316,474	2,828,015
Cash paid to suppliers and employees		(2,803,293)	(2,996,592)
VAT refunded/(paid)		146,040	(15,717)
Cash receipts/(payments) from other operating activities		<u>(224,006)</u>	<u>(244,013)</u>
Cash generated from operations		(564,785)	(428,307)
Interest paid		(5,033)	(5,107)
Income taxes paid		<u>(29,820)</u>	<u>(36,864)</u>
Net cash from operating activities		<u>(599,638)</u>	<u>(470,278)</u>
Cash flows from investing activities			
Proceeds from sale of investments held-to-maturity		588,862	602,713
Acquisition of property, plant and equipment		(501,600)	(141,274)
Interest received		<u>40,958</u>	<u>93,609</u>
Net cash from investing activities		<u>128,220</u>	<u>555,048</u>
Cash flows from financing activities			
Payment of finance lease liabilities		<u>(5,018)</u>	<u>(16,907)</u>
Net cash from financing activities		<u>(5,018)</u>	<u>(16,907)</u>
Net increase/(decrease) in cash and cash equivalents		(476,436)	67,863
Cash and cash equivalents at 1 January		<u>1,540,956</u>	<u>1,473,093</u>
Cash and cash equivalents at 31 December	13	<u><u>1,064,520</u></u>	<u><u>1,540,956</u></u>

The consolidated statement of cash flows of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 27.

Notes to the consolidated financial statements

Significant accounting policies

The Center for the Study of Democracy (the "Organisation") is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2004 comprise the Organisation and its subsidiaries Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

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

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

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

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

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

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

The consolidated financial statements were authorised for issue by the directors on 30 April 2005.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The consolidated financial statements are presented in BGN. Hyperinflation adjustments have been made in the Organisation's financial statements in order to show the effect of inflation on the purchasing power of the equity interest as at 31 December 1998. Due to the insignificant inflation growth in the financial years ended 1999-2004, the financial statements for these years have not been adjusted according to the official inflation index.

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

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The BNB official exchange rate of the USD as at 31 December 2003 is 1.54856 BGN/USD and as at 31 December 2004 is 1.43589. The average exchange rate for the year 2004 is 1.575112 BGN/USD. The official closing rate as at December 2004 of the EUR is 1.95583 and of the USD is 1.43589.

(e) Property, plant and equipment

(i) Owned assets

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

(i) Owned assets (continued)

Items of property, plant and equipment are reported in the Organisation's financial statements applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their cost has been inflated as at 31 December 1998.

Property, plant and equipment and intangible assets have not been inflated for the period 1999-2004. The inflation rates for these periods are considered insignificant and no restatement of the financial statements has been made. The inflation rates for each period are presented below:

Year ended	Inflation rate
1999	6.4%
2000	11.4%
2001	4.8%
2002	3.8%
2003	5.6%
2004	4.0%

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

(f) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The intangible assets are reported in the Organisation's financial statements applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their cost has been inflated as at 31 December 1998.

(iii) Subsequent expenditure

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

(iv) Amortisation

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

- software 4 - 5 years

(g) Investments

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

(g) Investments (continued)

Other investments classified as held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(h) Trade and other receivables

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

(i) Inventories

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits.

(k) Impairment

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

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time

(i) Calculation of recoverable amount (continued)

value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

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

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

(l) Trade and other payables

Trade and other payables are stated cost.

(m) Revenue

(i) Goods sold and services rendered

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

(ii) Revenue from grants and contributions

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

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

(ii) Revenue from grants and contributions (continued)

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

(n) Expenses

(i) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Net financing costs

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

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

(o) Income tax

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

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

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

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

(o) Income tax (continued)

CSD is a non - profit organization. No corporate income tax is levied for non for profit activities in accordance with current Bulgarian legislation. As at 31 December 2003 and 31 December 2004 the Center has gained financial income from dealing with securities under agreement for trading of securities and bonds. The management has estimated that this is income from trading activities and has accrued the respective taxes due.

(p) Segment reporting

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

Notes to the consolidated financial statements

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Notes to the consolidated financial statements

(1) Segment reporting

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

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

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

Business segments

The Group comprises the following main business segments:

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

1. Segment reporting (continued)
Business segments

<i>In BGN</i>	Note	Non-profit activities		Trading activities related to social and economic research		Trading activities related to real estate property		Eliminations		Consolidated		
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	
Revenue from:	2											
grants and contributions		1,980,583	3,196,672	-	-	-	-	-	-	-	1,980,583	3,196,672
sale of services		-	-	405,645	367,558	68,371	50,500	-	-	-	474,016	418,058
financing for fixed assets		56,252	40,606	-	-	-	-	-	-	-	56,252	40,606
Total revenue		2,036,835	3,237,278	405,645	367,558	-	-	-	-	-	2,510,851	3,655,336
Inter-segment revenue		-	-	-	-	38,880	-	(38,880)	-	-	-	-
Total revenue		2,036,835	3,237,278	405,645	367,558	107,251	50,500	(38,880)	-	-	2,510,851	3,655,336
Expenses on grants and contributions	3,(a)	(1,870,563)	(2,955,930)	-	-	-	-	-	38,880	-	(1,831,683)	(2,955,930)
Operating expenses related to trading activities	3,(b)	-	-	(340,792)	(265,974)	(118,180)	(50,233)	-	-	-	(458,972)	(316,207)
Cost of sales	3	(1,870,563)	(2,955,930)	(340,792)	(265,974)	(118,180)	(50,233)	38,880	-	-	(2,290,655)	(3,272,137)
Other income		300	287	-	-	-	-	-	-	-	300	287
Administrative expenses	4	(141,041)	(201,447)	-	-	-	-	-	-	-	(141,041)	(201,447)
Gross profit		25,531	80,188	64,853	101,584	(10,929)	267	-	-	-	79,455	182,039
Net financing income/(costs)	5	(176,232)	(195,198)	(7,810)	(8,595)	132,467	72,134	-	-	-	(51,575)	(131,659)
Profit before tax		(150,701)	(115,010)	57,043	92,989	121,538	72,401	-	-	-	27,880	50,380
Income tax expense		(3,390)	(14,539)	(10,991)	(21,554)	(15,630)	(14,089)	16,798	14,089	-	(13,213)	(36,093)
Profit for the period		(154,091)	(129,549)	46,052	71,435	105,908	58,312	16,798	14,089	-	14,667	14,287
Total assets		3,111,504	3,417,434	209,234	175,706	1,486,080	492,438	(1,498,803)	(497,305)	-	3,308,018	3,588,273
Total liabilities		459,559	611,397	27,386	39,909	1,316,860	429,127	(1,519,278)	(500,984)	-	284,527	579,449
Cash flows from operating activities		(432,490)	(139,809)	56,929	80,785	(224,077)	(411,254)	-	-	-	(599,638)	(470,278)
Cash flows from investing activities		602,227	593,796	(11,238)	(43,788)	(462,769)	5,040	-	-	-	128,220	555,048
Cash flows from financing activities		(839,051)	(413,543)	(5,018)	(16,907)	839,051	413,543	-	-	-	(5,018)	(16,907)

Notes to the consolidated financial statements

2. Revenue

<i>In BGN</i>	2004	2003
Revenue from grants, contributions and projects		
USAID/DPK Consulting – <i>Coalition 2000</i> Anti-Corruption Program	1,045,552	2,050,460
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	239,107	278,470
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces - Phase III	191,720	-
Council of Europe – Information Centre on the Council of Europe	132,996	128,302
British Embassy – Trafficking and Corruption in Bulgaria	104,633	119,535
CIPE – Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	73,752	22,361
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces	39,876	184,887
Saferworld UK – Implementing and Enforcing Arms Export Controls and Combating Small Arms Proliferation in Bulgaria	1,088	22,200
Embassy of USA – Measuring Crime in Bulgaria: a Way to Strengthen Crime-Fighting Capacity	37,353	-
NATO – NATO, EU and the New Risks: a Southeast Europe Perspective	29,307	-
CERGE - ‘Firms’ non-compliant behaviour do networks matter in Bulgaria	18,951	-
British Embassy - Local Ombudsman: a new mechanism for human rights protection and good governance	14,312	-
The German Marshall Fund – Illegal Trafficking and Corruption in Southeast Europe (2001-2002); Corruption Assessment in Southeast Europe (2002-2003)	-	53,615
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	126,692
European Commission - The Informal Economy in the EU Accession Countries (Inforec)	-	72,365
UNDP – Review of the Administrative and Commercial Justice Systems	-	42,800
British Embassy Sofia – Evaluation of Drugs Consumption in Bulgaria	-	45,274
Other projects	51,936	49,711
	<u>1,980,583</u>	<u>3,196,672</u>
Revenue from sales of services	474,016	418,058
Income from financing for fixed assets	56,252	40,606
	<u>2,510,851</u>	<u>3,655,336</u>

3. Cost of sales

<i>In BGN</i>	2004	2003
Hired services	1,216,326	1,936,164
Salaries and benefits	189,501	186,449
Depreciation	90,971	47,105
Supplies and consumables	90,448	145,501
Other expenses	703,409	956,918
	<u>2,290,655</u>	<u>3,272,137</u>

a) Expenses on grants, contributions and projects

<i>In BGN</i>	2004	2003
Hired services	886,990	1,695,810
Salaries and benefits	141,081	135,573
Depreciation	46,067	40,606
Supplies and consumables	72,010	142,317
Other expenses	685,535	941,624
	<u>1,831,683</u>	<u>2,955,930</u>

b) Expenses related to trading activities

<i>In BGN</i>	2004	2003
Hired services	329,336	240,354
Salaries and benefits	48,420	50,876
Depreciation	44,904	6,499
Supplies and consumables	18,438	3,184
Other expenses	17,874	15,294
	<u>458,972</u>	<u>316,207</u>

4. Administrative expenses

<i>In BGN</i>	2004	2003
Hired services	108,809	171,440
Salaries and benefits	227	-
Depreciation	25,996	21,101
Supplies and consumables	5,454	8,872
Other expenses	555	34
	<u>141,041</u>	<u>201,447</u>

5. Net financing costs

<i>In BGN</i>	2004	2003
Interest income	9,460	21,690
Interest expense	(3,070)	(1,312)
Foreign exchange gains	80,705	98,137
Foreign exchange losses	(151,022)	(306,414)
Income for dealing with investments held-to-maturity	17,383	61,870
Other financial expenses	(5,031)	(5,630)
	<u>(51,575)</u>	<u>(131,659)</u>

6. Income tax expense

Recognised in the income statement

In BGN **Note** **31 December 2004** **31 December 2003**

Current tax expense

Corporate tax	(17,898)	(35,109)
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Deferred tax expense

Origination and reversal of temporary tax differences	4,458	(985)
Reduction in tax rate	227	-
	4,685	

Total income tax expenses	(13,213)	(36,094)
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7. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Assets under construction	Total
<i>Cost</i>							
Balance at 1 January 2004	305,885	171,663	226,479	90,200	2,304	692,099	1,488,630
Acquisitions	920,914	32,507	1,577	8,280	-	-	963,278
Transfers	344,966	-	-	-	-	(344,966)	-
Balance at 31 December 2004	1,571,765	204,170	228,056	98,480	2,304	347,133	2,451,908
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2004	11,649	96,844	144,012	64,909	202	11,210	328,826
Depreciation charge for the year	9,426	76,988	20,911	6,679	345	-	114,349
Balance at 31 December 2004	21,075	173,832	164,923	71,588	547	11,210	443,175
<i>Carrying amount</i>							
At 1 January 2004	294,236	74,819	82,467	25,291	2,102	680,889	1,159,804
At 31 December 2004	1,550,690	30,338	63,133	26,892	1,757	335,923	2,008,733

8. Intangible assets

<i>In BGN</i>	Software	Patents and licenses	Other	Total
<i>Cost</i>				
Balance at 1 January 2004	13,228	412	590	14,230
Acquisitions	1,194	-	-	1,194
Balance at 31 December 2004	14,422	412	590	15,424
<i>Amortisation and impairment losses</i>				
Balance at 1 January 2004	9,033	412	25	9,470
Amortisation charge for the year	2,500	-	118	2,618
Balance at 31 December 2004	11,533	412	143	12,088
<i>Carrying amount</i>				
At 1 January 2004	4,195	-	565	4,760
At 31 December 2004	2,889	-	447	3,336

9. Investments

<i>In BGN</i>	2004	2003
Agency Vitosha EOOD	5,006	5,006

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

10. Other investments

In 2004 the financial assets held-to-maturity at Bank A realise gains of BGN 17,383 accounted for as financial income in the consolidated income statement.

On 28 May 2004 the Organisation sold the bonds at Bulgarian-American Credit Bank before the maturity date (28 March 2005) for BGN 597,299 equivalent to EUR 305,394.

Bonds held-to-maturity issued by:	Maturity	Nominal value		Number of bonds	2004	2003
		EUR	BGN		BGN	BGN
Bank A	28 March 2005	300,000	586,749	300	-	588,862

11. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2004 and 31 December 2003 are attributable to the following balance sheet items:

	31 December 2004		31 December 2003		31 December 2004	31 December 2003
	Assets	Liabilities	Assets	Liabilities	Net amount	Net amount
<i>In BGN</i>						
Property, plant and equipment	2,905	(1,795)	-	(985)	1,110	(985)
Trade receivables	-	(785)	-	-	(785)	-
Trade payables	3,375	-	-	-	3,375	-
Net tax assets/(liabilities)	6,280	(2,580)	-	(985)	3,700	(985)

11. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

<i>In BGN</i>	Balance as at 31 December 2003	Recognised in the income statement	Recognised in equity	Balance as at 31 December 2004
Property, plant and equipment	(985)	2,095	-	1,110
Trade receivables	-	(785)	-	(785)
Payables	-	3,375	-	3,375
Deferred tax assets/(liabilities)	(985)	4,685	-	3,700

The tax rate used for calculation of the deferred tax for 2004 is the rate defined by the Corporate Income Tax Act, which is 15% in force from 1 January 2005. At 31 December 2003 the deferred tax assets and liabilities were calculated using the tax rate for 2004 of 19.5%.

12. Trade and other receivables

<i>In BGN</i>	2004	2003
Completed projects	132,689	131,679
Trade receivables	25,434	41,127
Tax receivables	5,394	62,293
Other	16,309	33,747
	<u>179,826</u>	<u>268,846</u>

13. Cash and cash equivalents

<i>In BGN</i>	2004	2003
In local currency	229,540	83,457
In foreign currency	359,824	1,410,600
Deposits in foreign currency	430,916	2,560
At bank	1,020,280	1,496,617
In local currency	32,193	30,756
In foreign currency	12,047	13,583
In hand	44,240	44,339
	1,064,520	1,540,956

14. Deferred expenses

<i>In BGN</i>	2004	2003
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	37,425	12,633
ACCESS Foundation - Internship Program for Roma Minority in Mass Media	1,000	-
CIPE – Fostering Enterprise and Entrepreneurship though Good Governance at the Local Level	-	4,143
	38,425	16,776
Insurances and others related to trading activities	1,656	3,071
	40,081	19,847

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

15. Trade and other payables

<i>In BGN</i>	2004	2003
Trade payables	59,398	21,220
Salaries, benefits and social security payable	23,935	20,809
Other payables	618	14,855
	<u>83,951</u>	<u>56,884</u>

16. Deferred financing

<i>In BGN</i>	2004	2003
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	19,364	258,471
British Embassy - Local Ombudsman: A New Mechanism for Human Rights Protection and Good Governance	20,875	-
ACCESS Foundation - Internship Program for Roma Minority in Mass Media	3,129	-
European Commission - Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	59,003	-
USAID/DPK Consulting – <i>Coalition 2000</i> Anti-Corruption Program	-	94,256
CIPE – Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	-	8,742
Deferred financing for project activities	<u>102,371</u>	<u>361,469</u>
Deferred financing for fixed assets	73,455	102,258
	<u>175,826</u>	<u>463,727</u>

17. Financial instruments

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

Foreign exchange risk

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

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

Interest rate risk

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

Effective interest rates and repricing analysis

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

<i>In thousands of BGN</i>	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash at bank	13	0,1 -0,2%	589,364	589,364	-	-	-
Deposits at bank in foreign currency	13	2.5-3%	430,916	430,916	-	-	-
			1,020,280	1,020,280	-	-	-
			1,020,280	1,020,280	-	-	-

Credit risk

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

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

18. Related parties

The Group has a related party relationship with ARC Fund. During the year, the following transactions have taken place:

Related party	Relation	Transactions during the year	Balance as at 31 December 2004
ARC Fund	40% Management control	Partner organisation within <i>Coalition 2000</i> Initiative – USD 114,409 equivalent to BGN171,613	-
Bulgaria Online	Subsidiary of ARC Fund	Internet services provided – BGN 28,425	-

Transactions with directors and executive officers

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

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

<i>In BGN</i>	2004	2003
Management Board	178,647	243,136

19. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

20. Subsequent events

In April 2005 the Center for the Study of Democracy has sold its investment in Agency Vitosha EOOD at cost.

