

CENTER FOR THE STUDY OF DEMOCRACY

ANNUAL REPORT 2017



Building bridges

**CENTER FOR THE STUDY OF DEMOCRACY
2017 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 organisation fostering the reform process in Europe through impact on policy and civil society.

“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.

Center for the Study of Democracy
5 Alexander Zhendov Street, 1113 Sofia, Bulgaria
Tel: (+359 2) 971 3000
Fax: (+359 2) 971 2233
E-mail: csd@online.bg
www.csd.bg

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Introduction

In 2017, the Center for the Study of Democracy invested considerable research and advocacy effort in a number of key areas, striving to produce measurable and beneficial societal impact: fundamental rights, integration and social inclusion of migrants and vulnerable groups, crime and justice and victims of crime, energy governance and energy security, tackling and measuring corruption, hidden economy, competitiveness and knowledge economy, trafficking in human beings, transnational organised crime threats and EU border security, monitoring, countering and prevention of radicalisation and terrorism.

The topic that occupied the foreground during the year was state capture as a form of political corruption at the highest level of government.

State capture is an empirically proven form of participation through informal payments (bribes) of the private sector in the design of government regulations in the post-communist countries of Europe. Subsequently the term has been used to denote direct systematic influence of bigger (powerful) private interests both in the design of regulations and in the selective implementation of laws to benefit specific private actors. State capture does not entail single corruption transactions, but rather the systematic bias and deformation of the regulatory functions of state power (executive, legislative and judiciary) in most social spheres – economy, politics, judiciary, media, foreign policy, countering crime, etc.

The innovative approach of CSD in this area is to focus on the development of methodologies to measure state capture, which are being piloted in Bulgaria, Romania, Czech Republic, Italy, and Spain. The methodology includes several more important aspects of state capture (economic, legal, administrative, media and criminal behavior). A principle indicator of the economic dimension of state capture, for instance, is the monopolisation of specific sectors by blocking competition in favor of specific companies.

With its unique mix of expertise on economics, comparative legal systems, monitoring and evaluation, sociology, and criminology and its crosscutting competences CSD is able to provide practical solutions of complex societal issues requiring process and substantive knowledge on EU level and to contribute to the national and EU policy debate on such key topics.



Sofia, January 2018

Dr. Ognian Shentov
Chairman

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Part One

Program Reviews

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Law Program

In 2017, the Law Program worked on crime and justice, victims of crime, integration and social inclusion, and fundamental rights.

- **Crime and justice.** CSD's activities in the area of crime and justice focused on the prevention of and fight against organised crime, terrorism and money laundering, and on enhancing the presumption of innocence of suspects and accused. Other research areas included legal aid, EU financial support to national justice systems, the exchange of information and intelligence between law enforcement authorities of EU Member States and legal migration within the EU.
- **Victims of crime.** CSD explored numerous aspects of the protection of victims of crime, and specifically of human trafficking, such as victims' identification, individual needs assessment, referral and cooperation between public institutions and NGOs. Trainings and awareness events deepened the understanding of local law enforcement, judicial and social stakeholders of the new aspects of victim protection and explored avenues to overcome difficulties on normative and practical level.
- **Integration and social inclusion.** Based on its long policy experience in the area of migration, CSD started exploring aspects of integration and social orientation of foreigners as a tool to empower them against racism and xenophobia.
- **Fundamental rights.** As a member of the FRANET network of the EU Fundamental Rights Agency CSD collected data and information for the Agency's comparative studies. Research topics included asylum and migration, anti-Muslim and anti-migrant hatred, Roma and Travellers, misogyny, gender stereotyping and hate speech against women, barriers to EU citizens to fully enjoy their rights in another Member State, standing and operational space of NGOs in contributing to respecting and promoting fundamental rights, and drivers and barriers for independent living of persons with disabilities.

I. Crime and justice

In 2017, the Law Program's work in the area of crime and justice focused on prevention of and fight against organised crime and terrorism, and on protection of the rights of suspects and accused.

Across Europe, **organised crime and terrorism** represent a major challenge

for public security and safety and many different stakeholder groups are involved in creating awareness, preventing, identifying and intervening in case of risk or threat. At the same time, there is an increasing need of multidimensional approaches to better understand and address these phenomena. To respond to this need CSD, together with public institutions, research institutes

and private companies from 13 countries launched the international initiative *Understand the Dimensions of Organised Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-Line Practitioners and Professionals (TAKEDOWN)*.



TAKEDOWN
Identify . Prevent . Respond

UNDERSTAND THE DIMENSIONS OF ORGANISED CRIME AND TERRORIST NETWORKS FOR DEVELOPING EFFECTIVE AND EFFICIENT SECURITY SOLUTIONS FOR FIRST-LINE-PRACTITIONERS AND PROFESSIONALS

Deliverable D2.6
European Baseline report on current OC/TN specifics and collection of sources

This project has received funding from the European Union's Horizon 2020 Research and Innovation Programme under Grant Agreement No 700688.

The Law Program analysed the national level responses and the existing digital solutions against organised crime and terrorism, identified and reviewed relevant case law of national and international courts, interviewed stakeholders to understand their awareness and perceptions of these phenomena, and held a focus group discussion with first-line practitioners to review their needs and identify promising practices. CSD was also involved in the launch of the first of its kind EU-wide online survey on responses to organised crime and terrorism. The research resulted in the publication of a [baseline report on the current organised crime and terrorist networks specifics](#).



ARISA Assessing the Risk of Isolation of Suspects and Accused

NEWSLETTER n°1, November 2017

Suspects and Accused in the EU

Around nine million people are the subject of criminal justice proceedings, every year in the EU. At the same time, a significant share of those suspected or accused of criminal offences are not found guilty and are never convicted. All these persons, including those who are convicted, are presumed innocent until proven guilty according to the law.

The presumption of innocence is a fundamental right, a key principle of criminal justice and a universally recognised human rights standard. At EU level, the presumption of innocence is explicitly proclaimed in the Charter of Fundamental Rights of the European Union (Article 48) and further elaborated upon in Directive (EU) 2016/647 on the strengthening of certain aspects of the presumption of innocence and of the right to be present at the trial in criminal proceedings.

Despite the obligation of criminal justice authorities to strictly observe the presumption of innocence, suspects and accused are always subject to certain restrictions during the criminal proceedings, most of which affect their personal and social sphere. All of these restrictions have their legitimate purposes. Some of them are aimed to facilitate the investigation of the crime, some should prevent absconding or re-offending, some are justified by the need to protect the victims of the crime. In addition, information about the criminal proceedings is often publicly released or shared with the media, which further affects the lives of suspects and accused.

These measures and restrictions can have certain negative consequences for suspects and accused: loss of job or income, additional expenses, loss of social benefits, worsened relations with family and community, etc. These consequences need to be taken into account and properly assessed by the criminal justice authorities together with the evaluation of other factors like the risk of absconding or re-offending.

ARISA Project
Against this background, a consortium of research institutes experienced in the field of prison reform and inmates' rights from four Member States (Center for the Study of Democracy – Bulgaria; The Center for European Constitutional Law – Greece; Comitato Pubblica Opinione X3000 – Italy; and Droit au Droit (DAD) – Belgium) have launched this project, with the aim to enhance the observance of the presumption of innocence in criminal proceedings according to the provisions laid down in Directive (EU) 2016/647.

Specific objectives of the project consist in:

- identifying the factors affecting the social status of suspects and accused during the proceedings;
- analysing and describing their impact, including the effects of disclosing information about the proceedings to other people or to the media;
- providing judicial and law enforcement authorities with a methodology for assessing the risk of de-socialisation of suspects and accused, as well as with practical guidelines on how to address this risk at the earliest possible stage of proceedings without compromising the effective investigation.

[Read more](#)

The **rights of persons suspected or accused of committing a crime** was the other main topic of the Law Program's activities in the area of crime and justice in 2017. Led by the understanding that authorities, being obliged to respect the presumption of innocence, must be able to assess and reduce the negative impact of criminal investigations on suspects and accused, CSD, together with partners from Italy, Greece and Belgium, started exploring the ways, in which a criminal investigation affects the lives of suspects and accused. The objective of the [initiative to assess the isolation of suspects and accused](#) is to provide judicial and law enforcement bodies with a methodology to assess the consequences of their investigative actions for the suspects and accused and undertake measures to reduce their harmful effect without affecting the investigation.

Further work was done to enhance the capacity of the public authorities to better identify and investigate cases of **money laundering**. In addition to the series of awareness raising activities, CSD de-

livered trainings and workshops, organised a discussion on upcoming legislative amendments and developed a new *Money Laundering Investigation Manual*.

In 2017, CSD was commissioned by the National Legal Aid Bureau to **assess the effectiveness of the Bulgarian legal aid system**. The assessment includes an evaluation of the implementation of the Legal Aid Act combined with a national survey on the public awareness and needs of legal aid.

CSD also contributed to the **evaluation of the EU support to the national justice systems**. The objective of the study was to review the extent to which and how Bulgaria and fifteen other Member States used the European Social Fund and the European Regional Development Fund in the programming periods 2007 – 2013 and 2014 – 2020 to support their justice systems. The work included collection of specific and comprehensive factual information about the extent and the way programming documents were set out to support justice systems, about ex-ante assessment conducted by the Member States on the needs in the justice systems, and about planned, ongoing and finalised projects supporting the justice systems.

In 2017, the Law Program participated in two EU-wide studies in the area of justice and home affairs. For the study on the transposition of *Framework Decision 2006/960/JHA on simplifying the exchange of information and intelligence between law enforcement authorities of the Member States of the EU* (“*The Swedish Initiative*”), the Law Program performed full compliance assessment (completeness and conformity) and assessment of the practical implementation of the national transposition measures in Bulgaria. For the study in support of a fitness check and compliance assessment of existing EU legal migration direc-

tives, the Law Program compiled the Bulgarian national report and drafted the chapters on pre-application (information and documentation), submission of application and entry and travel (including acquisition of visas) of the synthesis report.

II. Victims of crime

CSD continued to work towards the improvement of the situation of victims of crime through streamlining their identification, needs assessment and referral, improving multidisciplinary work in protecting victims of human trafficking and enhancing stakeholder cooperation.

The search for model practices for the **identification, assessment and referral of victims** continued in 2017 with the holding of two capacity building workshops (one for [lawyers](#) and the other for [social workers](#)) and a national awareness event. Stakeholders were acquainted with international, EU and national legal framework on the rights of victims, with promising practices from various EU countries and had a chance to discuss everyday challenges they meet when working with victims.

Members of the Law Program presented the Bulgarian experience at a [transnational training on victims’ practices](#) in Athens (Greece) and co-authored the *Manual on Model Practices for the Identification, Needs Assessment and Referral of Victims*. An awareness event in December 2017 presented the collected promising practices and Bulgaria’s efforts to transpose EU legislation on the rights of victims.

The Law Program facilitated and took part in three study visits where Bulgarian stakeholders acquainted themselves with the Swedish, Spanish and Belgian



Law Program experts Dr. Maria Yordanova (left) and Miriana Ilcheva explaining the legal framework on the rights of victims during the capacity building workshop for lawyers in May 2017

experience in protecting **trafficking victims**. A handbook for lawyers, social workers and health professionals involved in the protection and assistance of victims of human trafficking was developed and presented at a training seminar in December 2017.

The Law Program also undertook a scoping of institutions and organisations involved in protecting victims of crimes. The collected information will be uploaded into a new web platform, allowing access to all citizens in case of need and providing a framework for a general referral mechanism for all persons harmed by crime.

III. Integration and social inclusion

As a follow-up of its long time research and policy engagement in the area of migration and integration, CSD, together with universities and organisations from Austria, Belgium, Romania, Latvia and Greece, launched an **initiative to prevent and combat racism and xenophobia through social orientation of non-nationals**. Its objective is to introduce an **innovative approach to non-nationals' language tuition and social orientation** as part of integration, incorporating **rule-of-law training elements**. The other key priorities are mainstreaming integration into relevant policy portfolios and acquainting the general public with best practices in social orientation. In 2017, activities included mapping

of existing integration frameworks in twelve Member States, analysis of integration courses and curricula in the six countries, collection of promising practices, and development of guidelines for covering the topics of tolerance and non-discrimination throughout the integration process.

IV. Fundamental rights

CSD continued to explore the realities of **free movement** from the viewpoint of **young Europeans**. The Law Program team took part in comparative studies on drivers and barriers in sending and receiving countries, individual experiences of young movers and the views of relevant institutions. Manuals for young people and for authorities were pre-

sented at an [international workshop at the European Parliament](#) and a [national awareness event](#).

As a member of the FRANET multidisciplinary network of the **EU Agency for Fundamental Rights (FRA)**, CSD continued to monitor the protection of fundamental rights in Bulgaria. In addition to its regular contribution to FRA's annual *Fundamental Rights Report*, CSD delivered studies on anti-Muslim and anti-migrant hatred, on Roma and Travellers, on misogyny, gender stereotyping and hate speech against women, on the barriers before EU citizens from other EU Member States to fully enjoy their rights in Bulgaria, and on the standing and operational space of non-governmental organisations in contributing to respecting and promot-



The Law Program team presenting the drivers and barriers to free movement of young people during the national awareness event in October 2017

ing fundamental rights. The research on the drivers and barriers related to the transition from institutional care to community-based support of persons with disabilities continued in 2017, moving from national to local level. Focus group discussions and interviews were conducted in the cho-

sen locality (Plovdiv), followed by two rounds of validation of results at national level. The monthly reporting on the migration situation in the country, which started back in 2015, continued throughout the year (the full collection of monthly reports is published on the [FRA website](#)).

Economic Program

In 2017, the Economic Program focused its work on the following areas:

- **Energy governance and energy security.** CSD was involved in the development of a Long-Term Electricity Roadmap for the SEE, outlining the three main European Energy Union mandated scenarios for the evolution of the Bulgarian electricity sector until 2050. Regardless of whether or not Bulgaria pursues an active policy to decarbonise its electricity sector, a significant shift away from fossil fuels to renewables will take place. Due to aging power plants, Bulgaria will need to replace approximately 97 % of its existing conventional generation fleet by 2050. New nuclear capacity will neither be needed, nor feasible before the need for replacement of existing reactors arises in the late 2040s. The country needs to focus on tackling long-term energy risk factors, the top four of which remain energy poverty, energy intensity, diversification and bad governance.
- **Tackling corruption and state capture risks.** CSD has embarked on a challenging mission to develop an innovative *State Capture Index (SCI)* based on big data analysis of market concentration as a product of regulatory, tax and judicial manipulation, and expert surveys with representatives from the academic, CSO and business sectors. CSD updated its Money Laundering Investigation Manual and held an innovative training week on countering and investigating money laundering for representatives of all relevant public authorities. The Southeast Europe Leadership for Development and Integrity (SELDI) initiative, coordinated by CSD, was able to further its impact in the SEE region, deepening its efforts for improved regional and European cooperation in good governance and anti-corruption.
- **Defining and analyzing foreign economic influence.** In 2017, CSD continued its pioneering work on defining the risks of adverse foreign economic presence when it combines political goals and autocratic capital. CSD has gathered international task forces to study the adverse Russian presence in the Western Balkans and in the Eastern Neighborhood, in particular as it relates to Euro-Atlantic aspirations and media freedom.
- **Hidden economy.** CSD and Vitosha Research continued their good cooperation with the University of Sheffield Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe. In 2017, under CSD leadership they published a series of policy briefs on the key takeaways for policy makers in Southeast Europe, Bulgaria, Croatia, and Macedonia.
- **Competitiveness and knowledge economy.** CSD continued analyzing the barriers to the Bulgarian business, provided recommendations for improve-

ment of the overall economic competitiveness and contributed to the development of the 2017 IMD World Competitiveness Yearbook. CSD experts participated in the development of the annual *Innovation.bg* report, drawing key recommendations for improving the national innovation policy in Bulgaria.

I. Energy governance and energy security

Bulgaria's Energy Security Risk Index declined further in the past two years, placing it at 58th position among the 75 largest energy consumers in the world. According to CSD's Policy Brief *A Roadmap for the Development of the Bulgarian Electricity Sector within the EU Until 2050: Focus on Fundamentals*, the key contributing factors have been the steady reduction of energy intensity and the greening of Bulgaria's energy and economy. The Bulgarian government needs to build carefully on this progress focusing on its EU-related

priorities and heeding the country's long-term energy risk factors, the top four of which remain energy poverty, energy intensity, diversification and bad governance.

The critical debate on the Bulgarian energy governance was further substantiated during a high-level policy round table *Priorities for the Bulgarian Energy Sector until 2050: European Perspectives and Strategic Vulnerabilities*. At the event, CSD presented the main findings and policy recommendations from electricity roadmap scenarios for Bulgaria up to 2050 developed as part of the regional South East Electricity Roadmap.



Priorities for the Bulgarian Energy Sector until 2050: European Perspectives and Strategic Vulnerabilities Policy Round Table, Sofia, October 2017

Development of a long-term Electricity Roadmap for the SEE region

The region of Southeast Europe will need to replace more than 30 % of its current fossil fuel generation capacity by the end of 2030, and more than 95 % of it by 2050, according to the long-term energy policy of the European Union. How to obtain these objectives is a policy challenge that requires consistent implementation of a renewable energy policy that provides incentives for new investment. Through five modelling exercises incorporating the gas and power markets, the transmission network and the macroeconomic system, *The South East Electricity Roadmap (SEERMAP) Report* elaborates comprehensive scenarios for the transformation of the electricity sector towards a full decarbonisation of electricity generation and a reduction of emissions by 91 % in 2050 compared to 1990. CSD has been the local partner who was re-



sponsible for the Bulgarian energy data verification, the analysis of the country's renewable energy policy and the development of country-relevant policy recommendations, incorporated in the *SEERMAP Bulgaria Country Report*. The study summarises the main findings for the development of the electricity sector in the country until 2050. Regardless of whether or not Bulgaria pursues an active policy to decarbonise its electricity sector, a significant shift away from fossil fuels to renewables will take place.



In addition, CSD continued to actively address important trends and dynamics, driven by the key powers on Eastern European energy and geopolitical map – Russia and Turkey. The report *Turkey in The Framework of the EU Energy Union: Energy Security and Governance Risks* discusses the strategic importance of the country both for SEE region and Europe. As a strategic bridge for new energy sources, Turkey will play an increasingly critical role in helping the EU in completing the ener-



*The EU Energy Union and the Russian Gas Projects:
Energy Choices and Energy Security in Europe Round Table, Sofia, June 2017*

gy security pillar in the Energy Union initiative. The country is going to play a vital role as the major transit country of future alternative natural gas supply from the Caspian region and the Middle East. Russia, on the other hand, has been a critical but controversial energy supplier for Europe for centuries, and the way EU and Russian energy strategies develop and interact in the decades to come is going to be important for the energy choices of European households. Gas has been a case in point in this regard. Governance deficits in many of the CEE countries have contributed to a lack of policy consistency on the main energy security priorities of the region including diversification of gas routes, liberalisation and integration of markets. These were some of the main conclusions of a round table discussion on the *EU Energy Union and the Russian Gas Projects: Energy Choices and Energy Security in Europe*.

Understanding individual and collective choices towards low-carbon energy transition

The EU and national policies for transition to low-carbon economy and society have been in the focus of CSD research activities during the whole of 2017 as part of an international team of scholars studying individual and collective energy choices in eleven European countries under the EU Horizon2020 Framework Programme for Research and Innovation. CSD has coordinated the development and application of research methodologies for studying key factors of households' and business enterprises' energy choices in the areas of transport, heating and cooling, and electricity, and for studying governance and social mobilisation practices that encourage collective energy choices in line with the Energy Union. The major aims of the research agenda are to better understand the interactions between individual and collective energy choices and the regulatory, technological and

investment prerequisites of the Energy Union transition pillar, and to provide strategic policy recommendations on how to increase the social acceptability of energy transitions in Europe.

Understanding Russian influence in Central and Eastern Europe

Ten bipartisan US Senators tabled comprehensive Russia sanctions legislation, the *Countering Russian Hostilities Act of 2017* which aims to introduce comprehensive sanctions on Russia for their cyber intrusions, aggression and destabilizing activities in the US and in Europe. The proposed legislation has recognised some of the key findings and policy recommendations from the recent report by CSD and CSIS *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, including that Russia had tried to exert influence in Europe by sowing “distrust in democratic institutions” and “engaging in well-documented corruption practices” to increase Russian influence in European countries.

The proposed bill mandates the creation of a special “high level task force” within the Treasury Department’s Financial Crimes and Enforcement Network that would not only trace and prosecute illicit financial flows linked to the Russian Federation if such flows interact with the United States financial system, but would also work with European governments via the US diplomatic missions to investigate illicit Russian financial flows. Consistent with the *The Kremlin Playbook’s* recommendations, the legislation also mandates support for programs aiming to combat corruption, including by strengthening civil society and national anti-corruption and regulatory bodies, and by improving the democratic governance, transparency, accountability and media freedom.

In late 2016, the Center for the Study of Democracy, in partnership with the Washington-based Center for Strategic and International Studies (CSIS), concluded a 16-month study to understand the nature of Russian influence in five case countries: Hungary, Slovakia, Bulgaria, Latvia, and Serbia. This research determined the extent of the Russian economic footprint in the domestic economy, which has ranged between 11 % and 22 % on average from 2004 to 2014. The report also presented evidence of how Russia has leveraged its economic presence to cultivate an opaque web of economic and political patronage across the region that the Kremlin uses to influence and direct decision making. In 2017, CSD has focused on extending the scope of its study, both deepening the understanding of the complex relations between foreign economic and political influence, including in new areas such as media capture, and enlarging the geographical coverage by incorporating new countries. CSD will continue its pioneering effort in quantifying Russian economic influence in Europe, including the Western Balkans – Macedonia, Montenegro and Bosnia & Herzegovina, emphasizing simultaneously its correlation with worsening governance across the region and the rise of the kleptocratic state. The Russian influence is assessed in a comparative perspective especially in the energy and financial sector where other regional powers such as Turkey have also vied to strengthen their clout. On the other hand, in the area of media capture, CSD aims at quantifying Russian corporate involvement in the media sectors of Bulgaria, Georgia, Moldova, Armenia and Ukraine and tracing its correlation with increasingly anti-Western propaganda and fake news content. Working with local partners in these countries, CSD also empowers local media, civil society and policy makers to identify state capture practices and attempts of

foreign states to infiltrate domestic institutions through local oligarchic networks.

II. Regional and European cooperation in good governance and anti-corruption

The President of the European Commission has announced 2025 as the target year for the next EU Enlargement in the Western Balkans, with the most likely candidates Montenegro and Serbia. EU Member States, though, are far from united behind him. They have provided backing for the European future of the region and have stepped up their pledge for support for the region with a focus on infrastructure and economic development, but most of the leading EU Member States remain reserved to putting a specific date for WB enlargement, in particular as regards rule of law concerns.

For the new strategy to work out and for EU – Western Balkans differences to be overcome, there is a need for much deeper and wider regional cooperation as well as engagement of the civil society actors from the region. This can only be achieved by decisive action channeled through comprehensive cooperation platforms gathering national governments, regional initiatives, European and CSO actors.

As economic development becomes central to ensuring further EU integration in the Western Balkans, notably through the Berlin Process initiative, good governance and anti-corruption should be considered as horizontal priorities across all fields of reform. It is with the prospects of 2018, when Bulgaria, for the first time in its history, will hold the EU Council presidency, that CSD and the [Southeast Europe Leadership for Development and Integrity \(SELDI\)](#)



Effective Prevention of Corruption through Risk Assessment Regional Forum, Ljubljana, October 2017

coalition continued their advocacy in the SEE region.

SELDI organised multiple networking and advocacy events throughout the year, held in Belgrade, Ljubljana and Podgorica. The forums, organised with the support of the Regional Cooperation Council, provided discussion platform for strategic dialogue between civil society and the public sector on the regional dynamics and the role of good governance for unlocking economic growth in the context of both current and future socio-economic developments.



On the other hand, significant attention was attributed to the application of technical instruments in pursuit of effective prevention of corruption. To further raise awareness and substantiate this debate CSD published *Sustainable Policy Impact through State-of-the-Art Research and Advocacy*, a review of the architecture and key results from the main methodological instruments applied

by SELDI in Southeast Europe. SELDI's advocacy impact, channeled through local ownership and a strong public-private partnership foundation, is built upon state-of-the-art corruption and hidden economy monitoring tools. The network's constant drive for social innovation has pushed its members to also devise new instruments, particularly in response to recently emerged, complex and systemic corruption practices in the region, most notably state capture.

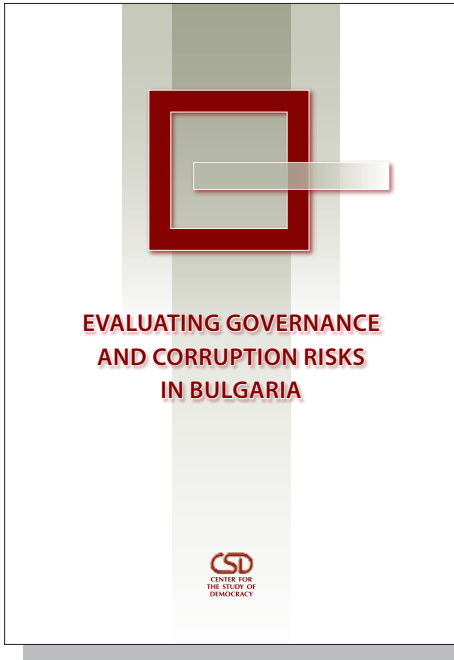
Evaluating governance and corruption risks

Ten years after accession to the EU, the challenge of corruption continues to define both Bulgaria's and Romania's status within the Union. The systematic effects of corruption remain the number one problem in both countries. The EU has imposed a series of conditions on the two countries in the area of anti-corruption, while allocating considerable financial support for modernisation for nearly two decades. The question remains to what degree have EU funds specifically targeted greater anti-corruption progress and what has been their tangible impact. This was among the core questions discussed during the round table *EU Funds and the Path to Good Governance in Bulgaria and Romania: Lessons Learnt*.

The round table was part of CSD's continuing efforts in 2017 to address critical governance and corruption challenges in Bulgaria. The publication *Evaluating Governance and Corruption Risk in Bulgaria* is an important contribution in this regard, providing insight into key risks of corruption in the public procurement market in construction and the way the EU has impacted Bulgarian progress on anti-corruption. An overview of the EU financial support for anti-corruption-related actions since 1998 reveals that, irrespective of the actual amount of the



*EU Funds and the Path to Good Governance in Bulgaria and Romania:
Lessons Learnt Round Table, Sofia, February 2017*



overall EU financial support throughout the years, Bulgaria has devoted attention and resources to anti-corruption commitments only when approaching a

major EU conditionality milestone. Bulgaria seems to have allocated very limited resources for anti-corruption overall in contrast to allegedly high significance of the issue in the country's accession and membership efforts.

Anti-corruption and state capture

With the purpose of narrowing the knowledge gap in state capture in the EU through diagnosing the mechanisms and means of state capture in critical economic sectors, CSD embarked on designing and implementing an innovative set of instruments for quantifying state capture risks, allowing for cross-sector and cross-country comparisons. Following a series of methodological discussions and practical workshops throughout 2017, CSD developed an innovative *State Capture Index (SCI)*, based on big data analysis of market concentration (both in the private and public sector) as a product of regulatory, tax and judicial manipulation, and expert surveys with repre-

sentatives from the academic, CSO and business sectors, which is currently being piloted in Bulgaria, Romania, Italy, the Czech Republic and Spain.

Fight against money laundering

In 2017, CSD continued its partnership with the Basel Institute of Governance in an attempt to analyse the current trends and institutional dynamics, and contribute to fight against money laundering. Bulgaria remains a high-risk country for the initiation of money laundering schemes. The high share of informality in its economy coupled with the low level of enforcement against corruption and organised crimes renders the country's financial system highly susceptible to money laundering. These and other important trends of the Bulgarian anti-money laundering framework and institutional effectiveness were discussed in the Policy Brief *Money Laundering in Bulgaria: State of Affairs and Policy Implications*. Money laun-

dering and other financial crimes are generally linked to different predicate offences by organised crime groups (most often with regards to trafficking in narcotics and human beings, prostitution, weapons, computer crimes, etc.). Tackling such a complex network of criminal activity requires substantial capacity on the part of law enforcement and the judicial system. With the aim of enhancing their practical capacities, CSD, in cooperation with the Basel Institute on Governance, organised a specialised training on the financial investigation of money laundering. In the course of five days, 32 representatives of Bulgaria's main institutions tasked with investigating money laundering and assets forfeiture underwent intensive training under a format developed by the Basel Institute on Governance. The training gathered participants from the State Agency for National Security; the General Prosecutor's Office; the Combating Organised Crime General Directorate; the National Police; the Specialised Criminal Court; the Sofia Court of Appeal; the National Revenue Agency; and the Commission for Illegal Assets Forfeiture Acquired.

In parallel, CSD is preparing a specialised *Money Laundering Investigation Manual*. The comprehensive document, being developed in cooperation with key stakeholders from law enforcement and the judiciary, will serve as a practical guide for practitioners in Bulgaria.

III. Tackling the hidden economy in Bulgaria and in Southeast Europe

CSD and Vitosha Research continued their good cooperation with the Sheffield University Management School and the Institute of Public Finance in the study and exchange of best practices in tackling undeclared work in Europe.



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DEMOCRACY

**MONEY LAUNDERING IN BULGARIA:
STATE OF AFFAIRS AND POLICY IMPLICATIONS**

Policy Brief No. 69, May 2017

1. Background


Bulgaria is still in the process of performing a comprehensive National Risk Assessment, as required by the Fourth EU Directive on prevention of the use of the financial system for the purpose of money laundering (ML) from 2015, which would potentially put the country in a better position to identify and address the existing risks. According to the Fourth Mutual Evaluation report for Bulgaria, published by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the country's financial system is misused mostly for placement and layering of criminal assets acquired abroad. At later stages, the integration of the criminal money back into the regulated financial and non-financial system often occurs abroad. The most significant part of the money passes through the Bulgarian financial system for a very short period of time in order to leave only a minor trace in the system and to keep the risk for money launderers to get detected as low as possible.¹ In principle, given Bulgaria's small economy, large volume transactions made in the placement phase should be more easily red flagged. To date this has proven to be difficult to ascertain, especially since organized criminal groups

KEY POINTS

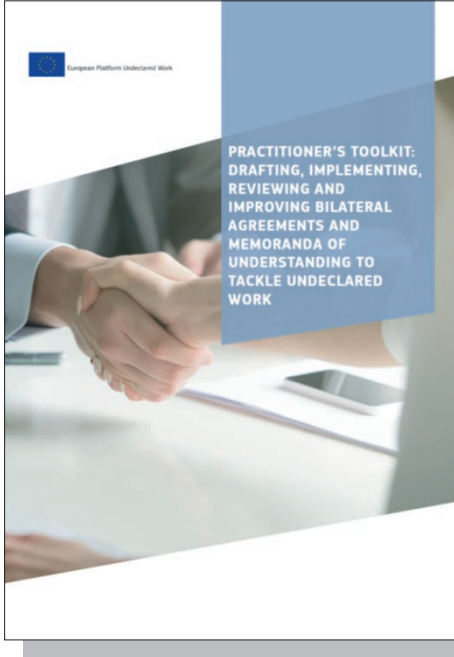
- Bulgaria remains high risk country for the initiation of money laundering schemes. The high share of informality in its economy, coupled with the low level of enforcement against corruption and organized crimes, renders the country's financial system highly susceptible to money laundering.
- Additional risk factors are the country's proximity and attractiveness to investors in real estate from non-EU countries, which might attempt to move assets through Bulgaria on the way to laundering them in the EU.
- Bulgaria has established a stable and high standard legal system for countering money laundering. But its institutional set up remains fragmented and without a central coordinating body, which further weakens the already stretched human resources.
- Bulgaria needs to urgently implement the most recent anti-money laundering rules on establishing final beneficial ownership. Bulgarian law enforcement should work towards establishing a money laundering risk assessment based on information of multiple registries and public databases.
- For Bulgaria to progress in countering money laundering it would need to advance on tackling legal asset corruption. Currently the system seems to self-sanor itself when it comes to investigations affecting politically exposed persons.

operating in Bulgaria are of a multinational character. Therefore, they may use fragmented and relatively small transactions, which make the discovery of the illegal nature of these transactions at the initial stage

¹ Cf. 2015, Fourth MONEYVAL evaluation round: Bulgaria, http://www.coe.int/T/EU/monitoring/moneyval/EvaluationRound/Fourth-MONEYVAL2015111_ENG.pdf

 BULGARIAN-SWISS COOPERATION PROGRAMME
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CSD became part of the support team of the [European Platform Tackling Undeclared Work](#). The Platform aims to aid Member States deal with undeclared work more effectively and learn from each other's experiences. CSD took part in a series of thematic workshops, dedicated to: the use of national and bilateral agreements to tackle undeclared work; administrative cooperation through the use of the Internal Market Information system (IMI); and sharing success stories on measures, instruments and tools that could be transferred to other countries. As a follow-up of the discussions at the events, CSD prepared two [papers](#), as well as a Practitioner's Toolkit on Drafting, Implementing, Reviewing and Improving Bilateral Agreements and Memoranda of Understanding to Tackle Undeclared Work. The Toolkit aims to assist experts with concrete guidance and easy-to-follow steps on how to develop and implement national and EU agreements to tackle undeclared work. CSD elaborated a compilation of [11 factsheets](#) with examples of existing tools (practical

measures, handbooks, online platforms) on tackling undeclared work in the EU. The primary focus of the factsheets was placed on tools which could facilitate the co-operation and the exchange of data between countries on different aspects of undeclared work and which may provide ideas for Member States to develop and engage through the Platform.

Additionally, as part of the network of local correspondents of DG Home of the European Commission, in 2017 CSD contributed to the recommendation of the European Semester.

IV. Competitiveness and the knowledge economy

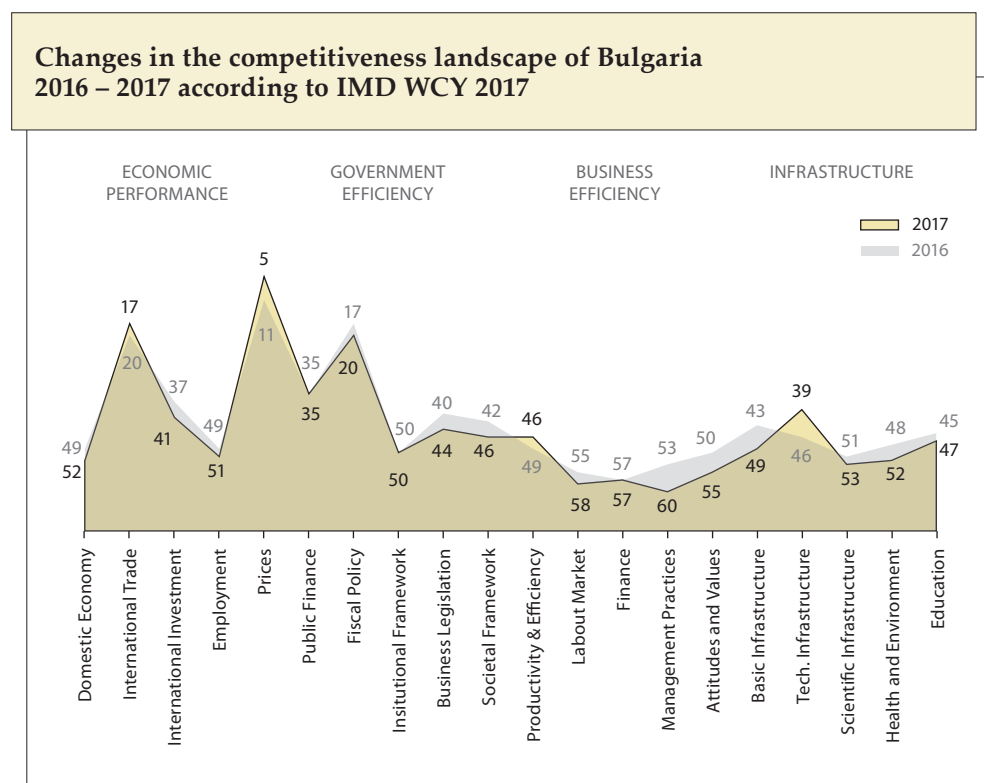
In 2017, CSD continued its work on the study of the competitiveness and the innovation potential of the Bulgarian economy. In the area of innovation policy, the experts from the Economic Program contributed actively in the development of the annual report [Innovation.bg](#),



which has become one of the main policy documents for regular monitoring of innovation performance in the country. Presented at the 13th National Innovation Forum, held under the auspices and with participation of the President of Bulgaria, *Innovation.bg 2017* focuses on the place of Bulgaria in the global value chains, emphasizing the development of strong and vital automotive sector in the country. In the area of competitiveness, the Economic Program analysed the barriers to the Bulgarian business and provided recommendations for improvement of the overall competitiveness landscape. CSD is partner for Bulgaria of the World Competitiveness Center at the International Institute for Management Development (IMD), Switzerland, which publishes the World Competitiveness Yearbook. According to its 2017 edition, the Bulgarian econo-

my is slowly emerging from stagnation, but Bulgarian politicians and business managers have failed to improve the competitiveness of the country during the 10 years of its EU membership.

The key competitiveness challenges for Bulgaria in 2017 included: improving judicial performance to tackle high-level impunity; modernizing public administration and independent regulators to reduce corruption and improve market competition; improving the quality of healthcare and education to reverse the brain drain and population decline; enhancing EU funding priorities and delivery system with a focus on economic and social impact, rather than absorption; completing energy market liberalisation and diversification with a focus on consumer engagement and low carbon emissions.



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Sociological program

The work of the Sociological Program in 2017 focused on integration of migrants, social inclusion of vulnerable groups, trafficking in human beings, and prevention of radicalisation leading to terrorism.

- **Integration of migrants and social inclusion of vulnerable groups.** The Sociological Program continued its work on evaluating and identifying effective policy solutions to facilitate the inclusion of vulnerable groups in Bulgarian society and at EU level. The Program conducted evaluations to assess needs and identify workable solutions in the sphere of orientation and integration trainings for beneficiaries of international protection with a particular focus on the needs of women as well as to identify gaps in the access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Hungary and Romania. In 2017, CSD became member of EASO's Consultative Forum.
- **Counter trafficking in human beings.** CSD studied the role of the Internet in the processes of trafficking in human beings and smuggling of illegal migrants. The analysis explored the use of the Internet and mobile applications in the recruitment, transportation and exploitation phases of the trafficking and smuggling processes.
- **Prevention of radicalisation leading to terrorism.** Based on methodological instruments for the identification of risks of radicalisation CSD conducted a review and provided consultation of the final analysis of a national representative survey on radicalisation in Jordan.
- **Monitoring of migration.** The Sociological Program led the development and pilot testing of unified standards for independent monitoring of forced return in Bulgaria.

I. Integration of migrants and social inclusion of vulnerable groups

In the context of increasing refugee inflows in Europe it becomes highly relevant to propose and implement practical actions responding to existing gaps in migrant/refugee integration across the EU. In response to this challenge, CSD conducted a cross national study *Mapping the Training Needs of Beneficiaries of International Protection and the Mechanisms for Training Provi-*

sion in Five EU Member States. The study identified information and training needs of beneficiaries of international protection and provided gaps analysis as per their provision at the levels of reception and integration in five EU Member States (Bulgaria, Greece, Italy, Malta and Spain). The cross-national comparison served as a basis for the identification of workable solutions in Italy and Spain that can be transferred in Bulgaria, Greece and Malta where customised orientation and integration



Discussing gaps in information and raising provision to beneficiaries of international protection at an expert seminar in Sofia, 30 March 2017

training modules are in the process of development.

The initiative is a joint effort of seven research and service providing institutions from Bulgaria, Greece, Malta, Italy and Spain. It has involved cross-national exchange of knowledge and experience in the sphere of integration training in the course of two study visits to refugee servicing institutions in Italy and Spain.

Between 2013 and 2016, the EU Member States started the implementation of the *Youth Guarantee Programme* aimed at NEET youth (youth not in employment, education or training). In Bulgaria, as well as in Hungary and Romania, substantial part of the youth in this situation come from Roma communities. To influence the impact of EU-funded Youth Guarantee programmes at re-

gional, national and local levels and to promote the provision of inclusive services by national governments and the implementation of long-term reforms that improve the lives of Roma youth, the Sociological Program discussed with its partners from the Budapest Institute and the Romanian Centre for European Policies the methodology for the study *Mind the Gap! – Facilitating access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Hungary and Romania*, and the strategy for dissemination of its results.

Homophobia and unequal treatment for LGBTI people remain widespread across the EU. While indicators vary in the different Member States and the situation seems more favorable in some compared to others, data shows that no country has achieved full LGBTI equality. Bulgaria is among the countries



Expert visit to the Staderini Transit Centre for Refugees in Rome, 17 May 2017

where the situation remains quite unfavourable. According to the ILGA-Europe Rainbow Map (2016), which shows the human rights situation of LGBTI people across the EU, Bulgaria scores 24 % (with 100 % denoting “rights fully respected” and 0 % denoting “violations, discrimination”). To address this reality and trigger improvements in the treat-

ment of the LGBT community CSD developed a methodology for conducting a national study on the situation of same-sex couples with recognition in another EU Member State who travel and reside in Bulgaria. Following the results of the study an awareness rising strategy will be developed targeting the relevant authorities and the general public.



Discussion of methodology of Mind the Gap! cross-national study in Sofia, 27 September 2017

II. Trafficking in human beings

In 2017, the Center for the Study of Democracy continued the cooperation with the University of Trento (Italy) and Teesside University (UK) on the study of **the role of Internet in the human trafficking and human smuggling process**. The methods of in-depth interviews with key informants, explorative analysis of the Web and online survey among users of job sites and dating sites were used to analyse the role played by the Internet in the recruitment and exploitation phases of the trafficking and smuggling processes. The study results were summarised in a [national report](#) and presented at a [national workshop](#).

The event held on 22 March 2017 informed the key stakeholders: representatives of law-enforcement agencies and non-government organisations about the findings of the study, and gathered

their opinions and recommendations for counteracting Internet-facilitated human trafficking and smuggling. The participants also discussed strategies for development of Internet and new technology-based solutions and prevention-oriented activities.

III. Radicalisation leading to terrorism

The Sociological Program, jointly with the Security Program, continued its work on **understanding radicalisation and developing monitoring instruments in Southeast and Central Europe**. CSD, together with ELIAMEP and the Center for Security Policy at Charles University, addressed key needs in the area of counter-radicalisation that resulted in the drafting of two methodological tools for monitoring radicalisation risks: *Monitoring Radicalisation: A Framework*



*Human Trafficking and Smuggling – the New Challenges Workshop,
Sofia, 22 March 2017*



Radicalisation and Extremism in Bulgaria: Monitoring Trends and Risks Seminar, Sofia, 28 February 2017

for *Risk Indicators* and *Situational Assessment of Extremist Trends*. The tools were drafted to aid intelligence and law enforcement institutions in conducting risk assessments with regard to radicalisation and extremism. The two publications are groundbreaking work that sets the framework of understanding the processes of radicalisation, its manifestations and vulnerability risks in Bulgaria. The reports will serve as standard reading for law enforcement officers, civil society and academia dealing with monitoring or preventing radicalisation and extremism. The *Guide on Compiling Situational Analysis of Extremist Trends* will serve to advocate for the development of the system of data collection and analysis in Bulgaria. The *Tool for Understanding, Assessing and Monitoring Radicalisation Risks* will serve as grounds for an inter-institutional debate on the development of radicalisation and risk monitoring indicators in Bulgaria.

At the national level, the diagnostic tools were presented for discussion at a round table held at the Bulgarian Police Academy in February 2017, gathering experts from the Ministry of the Interior, the National Police, the State Agency for National Security, the Combatting Organised Crime General Directorate, the MoI Institute for Psychology, etc.

At the EU level, a round table took place in Brussels in February 2017, gathering key EU level stakeholders and experts. The event was co-organised with the European Policy Center and served to present and put under discussion key recommendations for monitoring interventions in Southeast Europe. The main diagnostic tools developed by CSD and the Policy Brief *Monitoring Radicalisation and Extremism* were presented.

CSD has become a recognisable analytical institute in the field of radicalisation



Monitoring Radicalisation Risks in Central and Southeast Europe: Shaping Diagnostic Tools for EU Policy Makers Round Table, Brussels, 23 February 2017

research at the EU level and has been approached in 2017 to provide advice and consultation on radicalisation research beyond the European continent.

IV. Monitoring of migration

In 2017, the Sociological Program, in partnership with CVS – Bulgaria, continued its pilot work on developing and testing unified standards for monitoring of forced return, seeking to assist the Bulgarian government in applying common standards and procedures for returning illegally staying third-country nationals in compliance with the fundamental rights of the returnees and in line with *Directive 2008/115/EC*.

The initiative resulted in the development of unified standards for monitor-

ing and ensuring respect for fundamental rights and freedoms of third-country nationals who are in a procedure of forced return. In the course of implementation of monitoring missions, CSD is working on the development and enhancement of mechanisms for cooperation between the government and the civil sector in the sphere of independent monitoring of forced return.

Based on review of forced return monitoring practices across the EU CSD developed *Draft Standards for Forced Return Monitoring* which were consulted with relevant national stakeholders and based on prior training of future monitors. *Independent Monitoring of Forced Return: Standards for Monitoring in Bulgaria* are presently tested through the conduct of monitoring missions of forced return operations.



A meeting with the Austrian Ombudsman Board, Vienna, 8 March 2017

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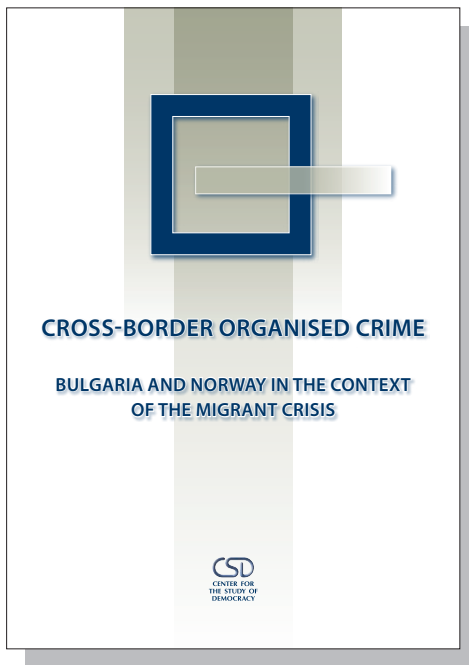
Security program

In 2017, the Security Program's efforts were focused on the following areas:

- **Assessing transnational organised crime threats.** The Security Program continued its work on overall strategic threat assessment, as well as in-depth analyses of three major criminal markets: the involvement of human smuggling operations in the context of the European migrant crisis, financial aspects of human trafficking in the EU and illicit trade in tobacco products via the Balkan route.
- **Monitoring and countering radicalisation and terrorism.** Two innovative practitioners' tools for monitoring radicalisation risks and assessing trends in extremism were developed, which gained recognition at EU level and have been included in the Collection of Inspiring Practices of the Radicalisation Awareness Network (RAN). CSD continued working on cutting-edge counter-radicalisation and terrorism research and policy development, including providing support to a study on violent extremism in Jordan, developing a mentoring program to counter radicalisation in probation and prison services in 5 EU Member States, as well as exploring the crime-terror nexus in 10 EU Member States.
- **EU border security.** The study Border Management and Visas beyond 2020: Scenarios and Implications (commissioned by DG Migration and Home Affairs) was concluded, outlining the challenges and priorities in the area of border security and visa policy to support strategic planning for the next multi-annual financial framework of the European Commission in the field of home affairs.
- **Measuring private corruption.** CSD contributed to developing innovative methods to measure and monitor business corruption in the EU, through participating in the design of the Private Corruption Barometer and its pilot application in Bulgaria. It is one of the few diagnostic instruments EU-wide that explores in depth different aspects of private-to-private corruption.
- **Improving private security sector governance.** CSD assessed the challenges for good governance of the private security sector and its roles and responsibilities in the broader security environment, and contributed to a regional study of accountability of private security companies in Southeast Europe.
- **Management of seized assets.** The Security Program contributed to the development of an innovative Data Management System for seized assets, a scalable and transferable ICT tool for the collection, management and automatic analysis of data on seized assets. The tool is expected to facilitate information sharing and more effective asset management within the EU.

I. Assessing transnational organised crime threats

In 2017, the Security Program continued its work on monitoring and evaluating key transnational and domestic organised crime risks and trends, with a focus on overall strategic threat assessment, as well as in-depth analyses of three criminal markets in particular: human smuggling, human trafficking and illicit trade in tobacco products.



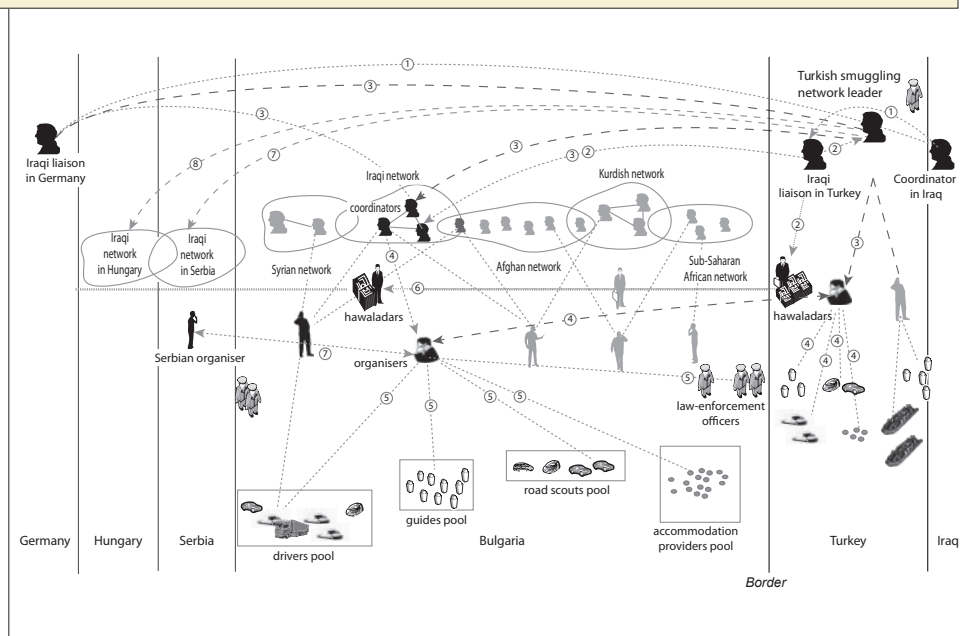
The adaptation of transnational criminal networks to the recent migration crisis in Europe since 2013 to date, as well as the rapidly evolving criminal market for human smuggling were among the issues examined in the study *Cross-border Organised Crime: Bulgaria and Norway in the Context of the Migrant Crisis*, conducted by CSD in partnership with the Norwegian Police University College (NPUC). The joint initiative aimed to improve understanding of the effect the migrant crisis has had on criminal net-

works and markets in Bulgaria and Norway, to contribute to the development of better suited approaches to countering transnational crime and to strengthen cooperation between law enforcement in the two countries. The study presents the first in-depth examination of human smuggling networks and operations in Bulgaria from the 1990s to date, as well as the synergies and overlaps with other organised criminal enterprises. It further examines critically the belated institutional response to the evolution of human smuggling networks at the peak of the European migrant crisis and highlights specific gaps and policy recommendations for a more synchronised and effective counteraction.

To enhance law enforcement cooperation in the field, CSD and NPUC organised a [study visit](#) to Oslo on 9-10 October 2017 aimed to facilitate exchange of good practices between Bulgarian and Norwegian police agencies tasked with countering human trafficking and smuggling. The findings of the joint study were presented at the international conference *Cross-border Organised Crime in the Context of the Migrant Crisis* held on 31 October 2017 in Sofia. The event was attended by representatives of Bulgarian law enforcement and the judiciary, members of civil society as well as diplomatic representatives of European countries and the US.

In 2017, the Security Program launched several new studies and initiatives that built upon previous work in the field of organised crime. After publishing the first Bulgarian *Serious and Organised Crime Threat Assessment* (BOCTA) in 2012, in 2017 CSD started work on the second independent BOCTA, which over the next three years will produce annual assessment reports covering 10 criminal markets posing the greatest threat. In January 2017, CSD started work on the study – *Financing of Or-*

Structure of a typical smuggling network through Bulgaria and organisation of smuggling operations



Participants from Bulgarian and Norwegian law enforcement agencies during a study visit in Oslo, 9-10 October 2017



Cross-Border Organised Crime in the Context of the Migrant Crisis Conference, Sofia, 31 October 2017

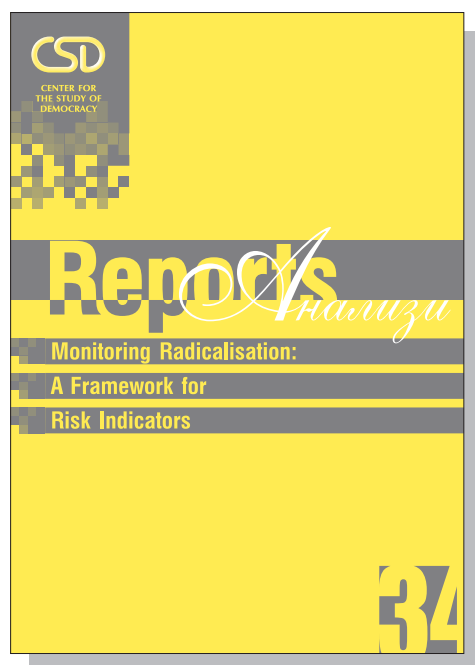
rganised Crime – Focus on Human Trafficking, building upon the successfully completed *Financing of Organised Crime report* in 2015. The study covers 10 EU countries and assesses in depth the financial aspects of trafficking in human beings activities.

Another key effort of the Security Program in the field of countering transnational organised crime is the study *Illicit trade of tobacco products along the Balkan route: addressing institutional gaps and corruption*, which is implemented jointly by CSD, the University of Trento in Italy, the Syene Center for Education in Romania and a team of leading Greek criminologists. The study elaborates tools for performance evaluation and corruption risk assessment of law enforcement and revenue authorities with regards to illegal tobacco trade.

II. Countering radicalisation and terrorism

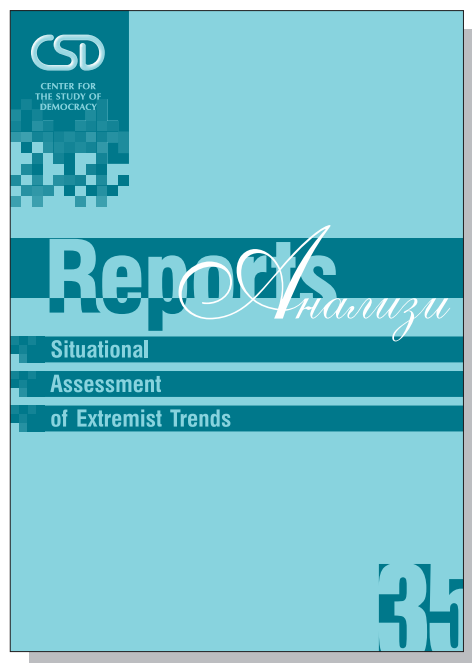
The Security Program, together with the Sociological Program, continued providing the evidence base for better understanding of radicalisation risks and processes in Bulgaria and the region, and developing practical diagnostic instruments to aid prevention efforts. CSD developed two innovative monitoring instruments to assess radicalisation and extremism risks, which respond directly to the needs of governments, practitioners and experts in countries from Central and Eastern Europe which are yet to implement comprehensive prevention and counter-radicalisation policies. There are few reliable diagnostic tools, designed to identify individuals and groups who might pose a threat, or are vulnerable to radicalisation, to guide ef-

fective policy action, both in those countries and across Europe more generally.



The *Framework for Risk Indicators for Monitoring Radicalisation* offers a practical guide of radicalisation risk and vulnerability indicators that enables frontline practitioners to better identify, understand and assess risk signs of radicalisation. It will serve as a main reference point for police officers, social or education workers in Bulgaria and in countries from Central and Southeast Europe, who are yet to be familiarised with the phenomenon and trained in how to respond to it. It also provides the basis for developing a tailored institutional early-warning mechanism in Bulgaria.

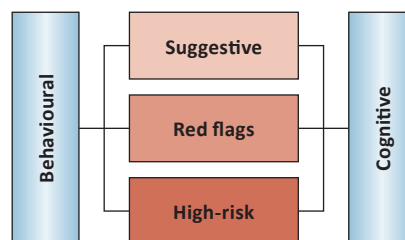
The *Situational Assessment of Extremist Trends* offers a viable mechanism for regular data collection and evaluation of extremists actors and crimes that enables intelligence and law enforcement institutions to develop regular situational reports of the spread, nature and trends



in extremism and violent radicalisms. The methodology was tested in Bulgaria, the Czech Republic and Greece, proving itself viable and effective despite variations in national contexts.

Policy makers wishing to develop comprehensive prevention and counter-radicalisation policies need reliable and

Structure of the vulnerability and risk indicators



actionable diagnostic tools that take into account different threat levels, vulnerability indicators and risk groups. To inform strategic policy making in the field of counter-radicalisation CSD has proposed an integrated approach towards monitoring and evaluation of underlying risks factors and trends, presented in the *CSD Policy Brief No. 68: Monitoring Radicalisation and Extremism*.

The two diagnostic instruments developed by CSD have been presented at national level and discussed with practitioners from law enforcement and intelligence agencies and from the expert community during the round table *Radicalisation and Extremism Risks in Bulgaria: Towards More Effective Diagnostic and Assessment Tools* held on 28 February 2017 at the Academy of the Ministry of the Interior. These efforts build directly on CSD's previous contribution

to the national *Strategy to Prevention and Countering Radicalisation and Terrorism 2015 – 2020*, by providing policy makers and practitioners with the necessary evidence base and actionable risk assessment tools to achieve strategic prevention objectives.

The monitoring tools have received highly positive feedback from EU policy officers, representatives of European NGOs, practitioners and international academic experts during the conference *Monitoring Radicalisation Risks in Central and Southeast Europe: Shaping Diagnostic Tools for EU Policy Makers* held on 23 February 2017 in Brussels in cooperation with the European Policy Center. As a result, the two instruments developed by CSD have been included in the *Collection of Inspiring Practices* of the EC's Radicalisation Awareness Network Center for Excellence (RAN).



Radicalisation and Extremism Risks in Bulgaria: Towards More Effective Diagnostic and Assessment Tools Round Table, Sofia, 28 February 2017



Alexandra Antoniadis, Head of Sector, Fight against Terrorism and Prevention of Radicalisation, DG HOME, European Commission and Günther Sablattnig, Office of the EU Counter-Terrorism Coordinator, during the conference in Brussels, 23 February 2017



Continuing CSD's successful cooperation with the Radicalisation Awareness Network (RAN) on 17 January 2017, the Security Program organised and hosted a [RAN study visit for practitioners](#) in Sofia dedicated to the challenges in prevention of radicalisation with a particular focus on those EU Member States that are in the initial stages of developing programs and measures to tackle radicalisation. The study visit gathered members of the RAN Center for Excellence, representatives from Eastern European NGOs and practitioners from

the police, health, social and education sectors involved in countering radicalisation, as well as representatives of key Bulgarian institutional stakeholders such as the State Agency for National Security, the Ministry of the Interior and the penitentiary administration.

CSD continued working on innovative research and policy development efforts in the field of countering radicalisation and terrorism in the EU and beyond, including: providing support to a nation-wide study on violent extremism in Jordan, developing deradicalisation and mentorship programs in prison and probation services in 5 EU Member States, as well as exploring the nexus between crime and terrorism in partnership with renowned research institutes from 10 EU Member States.

III. EU border security

CSD continued working at the forefront of developing and evaluating EU programmes for the improvement of border control and EU migration policies. In 2017, CSD led the study *Border Management and Visas beyond 2020: Scenarios and Implications*, commissioned by DG HOME. It outlined the challenges and priorities in the area of EU border security. The objectives of the study were to provide the EC with recommendations for the future policy and funding priorities in the next Multiannual Financial Framework (MFF) in the areas of border management and common visa policy.

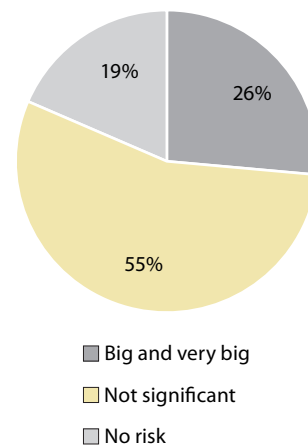
The study focused on several major uncertainties: the dynamics of migration pressure, the level of EU cooperation in general, and in particular in the area of border management, the evolution of travels to the EU and the common visa policy, and the potential implications of technological innovations. Each scenario is placed in a certain political context which provides the framework of possible developments within the EU and in its relationship with third countries. It defined the general framework of possible “futures” in regards to the uncertainties, and to assess each of the developed scenarios in terms of strategic planning and funding needs in the area of Home Affairs.

IV. Measuring private corruption

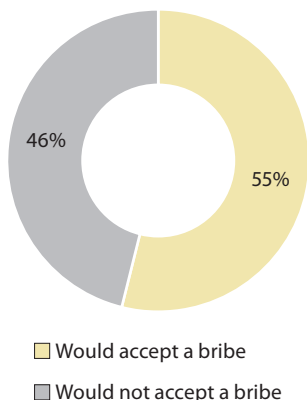
Corruption is a factor which hinders firms’ access to the market and to growth. There is a strong demand coming from both businesses and governments for sustainable policies to counter corruption in the private sector. Efficient policies, however, depend on the quality of information about the level and incidence of corruption.

CSD continued its efforts in developing innovative instruments for measuring and monitoring corruption through contributing to designing the [Private Corruption Barometer](#), in cooperation with the University of Trento, Universidad Rey Juan Carlos and the German NGO *Mafia? Nein Danke!* It is aimed at developing the first business victimisation survey module gathering comparative information on private corruption to produce more reliable indicators and statistics across EU Member States. The PCB survey was piloted in Bulgaria, Italy, Spain and Germany, allowing to measure comparatively objective (experiences) and subjective (perceptions) of private corruption within businesses of Member States. Results for private companies in Bulgaria show that illegitimate transactions between private companies are fairly common: only about 19 % of companies consider there is no risk of private-to-private corruption, while about 26 % of companies assess this risk as “big and very big”. This type of corruption is widespread and barriers to

Assessments of risk for private-to-private corruption



Susceptibility to private-to-private corruption



its proliferation are low: more than half of the employees in private companies would accept a bribe.

The results from the monitoring in Bulgaria mapped the extent and nature of corruption pressure on businesses, the most prevalent private-to-private corruption practices, their impact on annual business income, as well as the effectiveness of different anti-corruption measures.

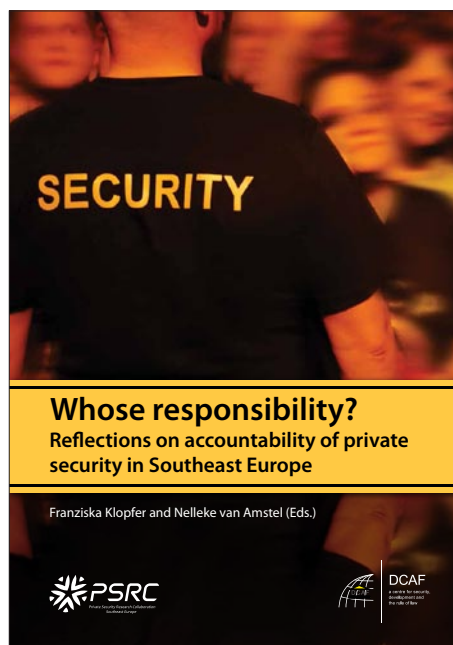
V. Improving private security governance

The challenges and opportunities in the private security sector continue to be an important topic in the overall security discourse in Bulgaria. The push for reforms in the sector culminated in the passing of a new law on private security in June, 2017. Although necessary steps were made in the right direction, much is left to be desired in the legal framework, particularly in improving the licensing regime of private security com-

panies (PSCs) and regulating effective public-private partnerships is the sector. The Security Program has remained focused on development in the area as part of the network [Private Security Research Collaboration \(PSRC\) Southeast Europe](#), led by the Geneva Center for the Democratic Control of Armed Forces (DCAF).



Within this research network, CSD experts contributed to the regional study *Whose responsibility? Reflections on accountability of private security in Southeast Europe*, published in June 2017. The report provides more detailed examination of why accountability is not fully ensured in the private security sector in Bulgaria. The study critically assesses



the legislation on private security in Bulgaria and examines what kind of regulation was imposed on PSCs and the implications for the (perceived) roles and responsibilities of PSCs within the national security sector. The report also looks into the capacities of control and oversight bodies to oversee the private security sector and how the wider political and social context allows these bodies to be efficient – or not.

The Security Program continued its involvement in the public debate on the role of the private security sector in the wider issue of national and regional security, as well as on its democratic governance. On October 19, 2017 CSD experts participated in the fourth national conference of the Bulgarian Corporate Security Association (BCSA). The efforts of the Security Program in the private security sector have gained recognition in the corporate security community in Bulgaria and the cooperation between CSD and BCSA has been formalised through a partnership agreement.

VI. Enhancing the management of seized assets

Over the past few years the Member States of the EU have become increasingly aware of the need for enhanced knowledge of the property owned by offenders in order to effectively combat not only organised crime but all forms of criminal activity. Effectively combating crime requires not only being able to trace crime-related assets but also to

seize, manage and ultimately confiscate the same in compliance with the final decision of courts if the criminal justice system is to run its full course.

Criminal asset forfeiture and management has been gaining significant political saliency in Bulgaria in the last few years, particularly in relation to government efforts in the fight against corruption at the political level. The Security Program has been closely monitoring the developments in the field while cooperating closely with the Commission for Illegal Asset Forfeiture (CIAF). In cooperation with the University of Trento, the Security Program contributed to designing and testing in selected EU Member States of an innovative Data Management System for seized assets (PAYBACK DMS prototype). The PAYBACK DMS is intended to be a scalable ICT tool – transferable with adaptations to different EU national contexts and supporting multi-lingual interface – for the collection, management and automatic analysis of data on seized assets. The application of the data management model is expected to exert a positive impact on the work of CIAF, particularly in relation to international cooperation and information exchange.

On 16 September 2017, experts from the Security Program presented the Bulgarian experience in seizing and managing criminal assets through the application of ICT tools during in the 17th Annual [Conference of the European Society of Criminology](#) (EuroCrim) in Cardiff, UK.

Part Two

Administration and Management

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Institutional Development

CSD is registered as a public benefit organisation with the Central Registry of NGOs at the Bulgarian Ministry of Justice. Public benefit organisations are obliged by law to conform to a number of additional financial reporting rules and to submit annual activity reports.

In 2017, CSD continued its efforts to optimise its internal administrative and financial reporting systems. The new remuneration procedures, introduced in 2014, were further streamlined in line with the requirements from various financing institutions, and the need to comply with national labour regulations.

In 2017, CSD employed a staff of twenty-seven; of whom twenty-two in professional and management positions, including part-time consultants; and five employees in administrative positions.

Accountability and transparency are guiding principles in the operation of the Center for the Study of Democracy. They are intrinsic to CSD activity and are related to the critical analysis of social processes and trends in Bulgaria and in the EU. These principles are implemented by means of:

- annual audit reports published since 1992;
- audits of individual projects;
- CSD *Annual Reports* published since 1994;
- regular updates about CSD's activities on its website;
- press-releases about on-going projects and their results;
- publications of a wide range of analyses and reports.

The application of good management practices has been critical to the successful work of CSD. In 2017, the Center continued its efforts to diversify its sources of funding in addition to the traditional EU financial instruments: *Horizon 2020*, the European Social Fund, and the financial instruments in the area of justice and home affairs. Some of CSD's activities were funded through the operational programs administered by the Bulgarian government, as well as the Open Society Institute and the U.S. Department of State. Apart from the awarded grants, CSD took part in tenders through its subsidiaries Vitosha Research and Project One.

In 2017, CSD proved its reputation as a reliable partner and coordinator of EU-wide projects encompassing research in the legal, security and social policy areas. In partnership with leading European think tanks and academic institutions, CSD took part in the European debate on the assessment and development of policies related to the fight against organised crime, the integration of victims of trafficking and other vulnerable groups, public confidence in justice, (de-)radicalisation, and cybercrime.

Internship program

The Center for the Study of Democracy aims to provide internship opportunities for outstanding students from various universities. In 2017, the Center hosted 22 interns from 9 different countries. In addition to Bulgarian students and recent graduates enrolled by an independent application via the CSD website, the Center accommodated interns from Argentina, Canada, El Salvador, France, Germany, Palestine, Spain, the UK, and the USA. In 2017, CSD also hosted three interns from the Open Society Internship for Rights and Governance (OSIRG) programme, specifically tailored to invest in the next generation of leaders poised to pursue innovative policy ideas that effectively integrate theory and practice to foster and sustain open societies. The program takes a broad definition of human rights and governance that is inclusive of promoting fundamental freedoms, expanding public access to information, challenging inequalities through development and rights and advancing approaches to ensuring transparency and accountability in a global context.

The two master's candidates from Palestine worked on projects that were not directly linked to a particular ongoing study implemented by CSD, but related to key policy priorities such as women's rights or to topics of fundamental interest such as electoral rights. They were beneficial for both the interns and CSD, covering as they did a region and policy context not fully familiar to the CSD research team.

The intern from El Salvador elaborated on her own project about THB policy and legal framework in Salvador which

was linked to an ongoing study implemented by CSD on the financial aspects of trafficking in human beings. She contributed to the latter by drafting a paper with a review of the existing knowledge in the area.

CSD always attempts to match interns' professional aspirations to their assignments. Having developed over the past two decades into a major think tank with expertise in a number of diverse fields, CSD is able to attract diverse talent. As a minimum, the Center attempts to involve interns in producing policy briefs (with supervision and feedback where needed) or policy notes on a topic relevant to the intern's educational background and/or future professional goals.

In 2017, all CSD programs actively engaged interns in their core activities such as desk research, data collection, literature reviews, and the drafting of reports on policy events. This helped them gain practical skills and in-depth knowledge in areas such as:

- anti-corruption and good governance in Europe; state capture and Russian economic influence in Central and Eastern Europe; the European Energy Union, energy security and energy decarbonisation scenarios; changing energy consumers' behaviours in Europe; hidden economy and undeclared work; international competitiveness;
- integration of migrants and social inclusion of vulnerable groups; orientation courses for beneficiaries of international protection; domestic and gender based violence; preven-

tion of radicalisation leading to terrorism; development of standards for monitoring of forced return; women's political rights; overcoming employment barriers for young European citizens;

- financing of organised crime activities with a focus on THB, countering radicalisation and violent extremism, prevention of radicalisation in prisons, assessing the link between terrorism and crime, human smuggling, organised crime threat assessment, illicit trade of tobacco products via the Balkan route, measuring private corruption, EU border security;
- migration, reception and integration of asylum seekers, social orientation of migrants, legal and social support to victims of human trafficking, EU and international legal framework on protection of personal data, review of ECHR case law in the area of fair trial in cases of organised crime and terrorism, review of promising practices in countering organised crime and terrorism, rights of suspects and accused with psycho-social or intellectual disabilities, anti-Muslim and anti-migrant hatred database.

In 2017, interns also assisted in preparing and conducting face to face interviews, and in transcribing and processing collected qualitative data. Notably, they were involved in the project preparation process, gaining valuable experience in developing grant and tender proposals and assisting the process with technical tasks.

The Center has a robust, standardised policy for mentoring newly hired interns, which frequently leads to extending offers for permanent positions as researchers and experts at CSD or at other institutions, offers of admission to elite graduate schools, or to funding schemes for additional employment and/or education. Interns, who are employed for a period of up to six months, undergo a two-stage selection and are provided with complete information to facilitate their adaptation to the receiving country and the organisation's specificities. In all cases, when interns are hired, CSD uses established templates and procedures for developing intern action plans, as well as mentorship plans to guide the intern's supervisor(s), while clearly identifying the expected timeline(s) and performance indicators that would determine the successful completion of the internship. The action and mentorship plans provide initial assessment of the strengths and opportunities of the internship for both the intern and the organisation.

As in previous years, the diversity of the educational backgrounds of the interns provided the programs' teams with a variety of perspectives on their respective fields of research. The interns, on the other hand, had the opportunity to find out about policy and program evaluation, to learn from leading researchers, policy analysts, investigative journalists, and advocacy leaders, and, depending on their interests and background, to participate in events organised by the programs and to familiarise themselves with the ongoing research activities.

"Being an intern at the Center for the Study of Democracy was a very valuable and gratifying experience. During my three months working for the Sociological Program, I performed a varied number of tasks that allowed me to gain a better understanding on the different topics that the department works on. Some of my tasks were searching for information materials aiming at orienting asylum seekers and refugees in host societies, searching for labor market orientation practices for refugees, and searching for methods for measurement of diversity management benefits. Apart from these daily tasks, I had the opportunity to work with a group of remarkable supervisors and colleagues, who were extremely supportive and helpful throughout my whole internship and, most importantly, made me feel welcomed since my very first day. In all, my time at CSD has been an experience that I will always remember and appreciate, and I encourage all prospective interns to apply for an internship position here."

Alejandro Melita, Argentina/Italy, intern at CSD's Sociological Program,
1 June – 31 August 2017

"My internship for the Economic Program was a truly incredible experience that allowed me to learn about the most salient projects the department is working on, while giving me practical involvement and skills within a premier research setting. Among the daily tasks I would work on, I created the monthly newsletter that was distributed to partner organisations, I researched information on anti-corruption initiatives in the Western Balkans, and I expanded the Center's contact network of relevant stakeholders that may be involved in CSD's work."

During my time at CSD, I was able to meet and work closely with many motivated staff members who gave me the freedom to work independently, but always made themselves available to answer questions and to give me feedback on working assignments. CSD gave me the opportunity to meet many talented interns who come from various cultural and educational backgrounds, making it possible to learn together and exchange ideas and viewpoints on important topics in international relations. I recommend an internship at CSD for its inclusive and international office environment and for the research skills that one is able to obtain from the knowledge set of the Center and the tools it makes available to interns."

Sophia Page, USA, intern at CSD's Economic Program,
1 June – 1 August 2017

“Having the chance of working with the CDS has truly been an amazing opportunity. I was an intern in the Law Program and after two months, not only have I been able to expand my knowledge regarding both European and International Law, but also put my previously acquired legal knowledge to test.

As an intern, I collaborated with many future European projects analyzing cases and data, doing legal researches, writing case briefings, among others, focusing mainly on topics which had a huge impact at a European level. By doing so, not only was I able to see first-hand how a group of professionals in this precise field of study work, but I was also invited to attend the different conferences that were held in the Center, which was a once in a lifetime opportunity.

With that being said, if anybody finds the time to do an internship at CDS, luckily longer than mine, I invite you to do so without hesitation. Every day you will get the chance to analyse new issues and forge opinions, and afterwards you will enjoy everything that Sofia has to offer with the rest of the interns, while having an unbelievable experience throughout your entire stay.”

Victoria de Simon, Spain, intern at CSD’s Law Program,
4 June – 27 July 2017

Subsidiaries of CSD: Vitoshka Research and Project One

Vitoshka Research EOOD and Project One EOOD are wholly owned by CSD and form the CSD Group. Vitoshka Research EOOD had started as one of the programs of CSD dealing with sociological issues and in 2000 was set up as a separate commercial company aiming to support the long term financial sustainability of CSD through involvement in marketing and social research. The General Manager of the company is the Director of Research of CSD.

Project One EOOD was founded after consultations with the auditing company KPMG in order to enable CSD’s participation in tenders and consultan-

cy projects on the territory of Bulgaria and the EU. Project One is also in charge of the management of CSD investment activities. The Manager of Project One EOOD is the Executive Director of CSD. The three organisations share facilities, human, and financial resources in order to better achieve their goals, while observing distinct separation of CSD Group’s commercial and non-commercial activities.

In 2017, Vitoshka Research focused its activities on conducting consulting projects, building upon its expertise in quantitative analysis and social research.

List of Staff

Governing Board

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

Program Board

Alexander Stoyanov, PhD, Director of Research
Mila Mancheva, PhD, Director, Sociological Program
Maria Yordanova, PhD, Director, Law Program
Mois Faion, PhD, Senior Fellow, Security Program
Ruslan Stefanov, Director, Economic Program
Rositsa Dzhekova, Coordinator, Security Program

Economic Program

Ruslan Stefanov, Director
Todor Galev, PhD, Senior Analyst
Daniela Mineva, Research Fellow
Martin Vladimirov, Analyst
Nadejda Gantcheva, Analyst
Stefan Karaboev, Analyst

Law Program

Maria Yordanova, PhD, Director
Dimitar Markov, Senior Analyst and Project Director
Miriana Ilcheva, Research Fellow
Maria Doichinova, Analyst

Sociological Program

Mila Mancheva, PhD, Director
Slavyanka Ivanova, Senior Analyst
Lilliya Dragoeva, Analyst

Security Program

Rositsa Dzhekova, Coordinator
Chavdar Chervenkov, Lieut. Gen. (ret.), Senior Fellow
Emil Tsenkov, PhD, Senior Fellow
Mois Faion, PhD, Senior Fellow
Tihomir Bezlov, Senior Fellow
Atanas Rusev, PhD, Senior Analyst
Anton Kojouharov, Analyst
Nadya Stoynova, Analyst

Administration

Mariana Yankova, Administrative Secretary
Milena Yordanova, Executive Assistant
Galina Sapundjieva, Program Assistant
Dimitar Stamenov, System Administrator

Financial Department

Milena Momchilova-Boyadzhieva, Financial Director
Tsvetomir Avramov, Financial Officer
Petar Lozanov, Accountant

Technical Support

Boyko Tassev

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Part Three

Financial Review

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CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2017

Independent Auditor's Report

To the General Assembly
of the Center for Study of Democracy

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of the Center for the Study of Democracy, Sofia and its subsidiaries ("the Group") which comprise the consolidated statement of the Group's financial position as of 31 December 2017 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as per these standards are further described in the Auditor's Responsibility section of our report. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (The IESBA Code) along with the ethical requirements of the Law on the Independent Financial Audit (LIFA), applicable to our audit of consolidated financial statements in Bulgaria. We have also complied with our other ethical responsibilities as per the requirements of LIFA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information, different from the consolidated financial statements and the auditor's report

The Group's management is responsible for other information. Other information comprises the report on the activity prepared by the management in accordance with Chapter Seven of the Law on Accountancy, but excludes the consolidated financial statements and our auditor's report.

Our opinion regarding consolidated financial statements does not comprise this other information and we do not express any form of conclusion about its reliability, unless it is explicitly stated in our report and to the extent to which it is stated.

In auditing consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is substantially inconsistent with consolidated financial statements or with our knowledge obtained during the audit, or in another way appears to contain material misstatement. If, based on the work we have performed, we conclude there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this respect.

Supplementary reporting requirements laid down in the Law on Accountancy

In addition to our responsibilities and reporting in compliance with ISA, in reference to the report on the activity we have followed the procedures supplementing ISA requirements as per the Instructions of the professional organisation of certified public accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA) – issued on 29 November 2016 and endorsed by its Managing Board on 29 November 2016. These are procedures on verification whether such other information is present and on examination of its form and content, designed to assist us in forming an opinion on whether this other information contains the disclosures and reports laid down in Chapter Seven of the Law on Accountancy.

Opinion in reference to Art. 37, Para. 6 of the Law on Accountancy

On the grounds of the procedures implemented, our opinion is that:

- a) The information included in the report on the activity for the financial year for which consolidated financial statements were prepared corresponds to the consolidated financial statements.
- b) The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.
- c) The report on payment to governments for the financial year for which consolidated financial statements was prepared, was presented and prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

During the preparation of consolidated financial statements the management is responsible for evaluating the ability of the Group to continue its existence as an operating enterprise, disclosing, when applicable, issues related to the assumption about an operating enterprise and using the accounting basis on the grounds of the assumption about an operating enterprise, unless the management has the intention to liquidate the Group or to suspend its activity, or has no other alternative but to take such action.

Auditor's Responsibility

We aim to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our auditor's opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit performed in accordance with ISA shall in all cases reveal material misstatement if such misstatement is present. Misstatements may arise as a result of fraud or error and are considered material if it would be reasonable to expect that, independently or in aggregate, they could impact the economic decisions of consumers taken on the basis of these financial statements.

As part of the audit complying with IAS, we use professional judgment and keep professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures in response to these risks and we obtain sufficient and appropriate audit evidence, so as to provide basis for our opinion. The risk of not revealing material misstatement which is due to fraud, is higher than the risk of not revealing material misstatement which is due to error, as fraud could vary from secret arrangement, through forgery, intentional omissions, and statements aiming to deceive the auditor, to internal control neglect or circumvention;
- consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related statements made by management;
- make a conclusion about the appropriateness of the accounting basis used by management on the grounds of the assumption for a going concern and the audit evidence obtained about whether material uncertainty is present concerning events or circumstances which could cause significant doubts about the ability of the Group to continue operation as a going concern. In case of finding such material uncertainty, we are obliged to draw attention in our auditor's report to the disclosures in the consolidated financial statements relevant to that uncertainty, or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, due to future events or circumstances the Group could suspend its operation as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether consolidated financial statements present the fundamental transactions and events in a reliable manner.



0509 Стоян Донеv
Регистриран одитор

Stoyan Donev
Registered Auditor
16 July 2018
Sofia

Center for the Study of Democracy (The Group)
Consolidated Statement of Financial Position, 31 December 2017

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Assets			
Property, plant and equipment	5	2,063	2,112
Intangible assets	6	236	385
Investment property	7	358	362
Total non-current assets		2,657	2,859
Short-term loan	8	122	116
Trade and other receivables	8	603	567
Cash and cash equivalents	9	1,280	669
Deferred expenses		116	452
Total current assets		2,121	1,804
Total assets		4,778	4,663
Equity		2,745	2,733
Liabilities			
Long term liabilities	10	200	200
Payables to partners and suppliers	10	489	429
Deferred financing	11	1,344	1,301
Total current liabilities		1,833	1,730
Total liabilities		2,033	1,930
Total equity and liabilities		4,778	4,663

These financial statements set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
16 July 2018




Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018




Center for the Study of Democracy (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2017

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Revenues from grants financing	12	2,178	1,937
Cost of Sales	13	(2,061)	(1,818)
Gross Profit		117	119
Other operating income		945	674
Administrative expenses	13	(990)	(709)
Impairment losses		-	-
Revenue from operating activities		72	84
Financial income		7	2
Financial expenses		(57)	(27)
Net financing costs	14	(50)	(25)
Profit before income tax		22	59
Extraordinary expenses		-	-
Income tax expense	16	(6)	(7)
Net profit for the period		16	52
Other comprehensive income		-	-
Total comprehensive income		16	52

These financial statements set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
16 July 2018




Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018




Center for the Study of Democracy (The Group)
Consolidated Cash Flow Statement, 31 December 2017

(all amounts in BGN thousand)	Note	Year ended 31 December	
		2017	2016
Cash generated from operations			
Profit before income tax		16	52
Adjustments for:			
Depreciation		<u>159</u>	<u>94</u>
Changes in working capital:			
Trade and other receivables		385	(87)
Trade and other payables		<u>126</u>	<u>115</u>
Net cash from operating activities		<u>686</u>	<u>174</u>
Income tax paid		<u>(6)</u>	<u>(7)</u>
Net cash generated from operating activities		<u>680</u>	<u>167</u>
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		<u>(18)</u>	<u>(62)</u>
Net cash used in investing activities		<u>(18)</u>	<u>(62)</u>
Cash flows from financing activities			
Loans received			
Interest and commissions paid		<u>(51)</u>	<u>(22)</u>
Net cash used in financing activities		<u>(51)</u>	<u>(22)</u>
Net increase/(decrease) in cash and cash equivalents		<u>611</u>	<u>83</u>
Cash and cash equivalents at the beginning of the year		<u>669</u>	<u>586</u>
Cash and cash equivalents at the end of the year	9	<u>1,280</u>	<u>669</u>

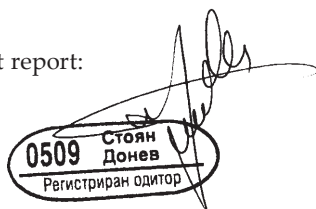
These consolidated statements of changes in e cash flow statement set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
16 July 2018



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018



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Стоян
Донев
Регистриран одитор



Center for the Study of Democracy (The Group)
Consolidated Statement of Changes in Equity, 31 December 2017

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2016		2,704
Net profit for the year		52
Other changes		(23)
Balance as of 31 December 2016		2,733
Balance as of 1 January 2017		2,733
Net profit for the year		12
Balance as of 31 December 2017		2,745

These consolidated statements of changes in equity set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:



Vladimir Yordanov
Executive Director
16 July 2018



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018



1. Group background activities

The Center for the Study of Democracy (CSD) is a non-profit organization domiciled in Bulgaria. The consolidated financial statements of CSD for the year ended 31 December 2017 comprise CSD and its subsidiaries, Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for the Study of Democracy (CSD) is a European 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 and Europe through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process, especially in the area of justice and home affairs;
- 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.

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

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

Project 1 EOOD was established in 2003. Its main activity is managing real estate investments of the Group and project management of the contract research of the Group.

As of 31 December 2017 the Group has 27 employees.

The financial statements were approved by the Governing Board on 16 July 2018.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent Group, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intra-group balances, income and expenses and unrealised gains resulting from intragroup transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in

the consolidated balance sheet, separately from parent shareholders' equity. Disposals of non-controlling interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of non-controlling interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Group. The elements of the financial statements whose presentation includes higher degree of judgment or subjectivity and for which the assumptions and judgments have higher influence are separately disclosed in Note 4.

New and amended standards, adopted by the Group:

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2017 are not early adopted by the Group because management of the Group believes that they are nor currently relevant to the Group, although they may affect accounting for future transactions and events.

2.2. Foreign currency translations

2.2.1. Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional and presentation currency is "Bulgarian lev" or "BGN".

2.2.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.3. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, less impairment losses, if any. Historical cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation commences from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

The Group uses straight-line depreciation method. Depreciation rates are based on the useful life of the different types of property, plant and equipment as follows:

Buildings	100 years
Machinery and equipment	3.33 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 years

Property, plant and equipment is depreciated from the month following the acquisition date and for internally generated assets – from the month following the date of entering into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4. Intangible assets

Intangible assets acquired by the Group are presented at cost, less accumulated amortisation and impairment.

Subsequent expenditures

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

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.

2.5. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest rate.

Held-to-maturity

Held-to-maturity investments are fixed-maturity investments that the Group's management has the positive intention and ability to hold to maturity. These securities are included as non-current assets except for securities, reaching maturity within 12 months from the balance sheet date and which are recognised as current during the reporting period. During the year, the Group did not hold any investments in this category.

Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are investments acquired with the purpose to be owned for non-fixed period of time and which can be sold when the Group needs recourses or at change of interest rates. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.7.

2.6. Inventory

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

2.7. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "selling and marketing costs". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and marketing costs" in the income statement.

2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

2.9. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

2.10. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.11. Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12. Employee benefits on retirement

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years. As at 31 December the Group has not accounted for those potential obligations.

2.13. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services

Revenue from time and material contracts, typically from delivering certain services, is recognised under the percentage of completion method. Revenue is generally recognised at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

Revenue from fixed-price contracts for delivering certain services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases

or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Revenue from grants and contributions

Grants from financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.14. Dividend distribution

The Group does not distribute dividends.

3. Financial risk management

3.1. Global financial crisis

Impact of the ongoing global financial and economic crisis

In 2017 and 2018, the Bulgarian economy continued its moderate recovery with easing of consumer and business credit. At the same time, due to the rise in global political uncertainty fears have increased that Bulgaria might be left out of the EU policy-making core. So far, these risks have not materialized as the country has applied to join the Eurozone in 2018 but remain potent for the future development of the country and of the particular sector of operation of the Group.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Bulgaria, together with tax, legal, regulatory and political developments.

The management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group. But the management analysis shows that for the short to mid-term the risks are balanced and the general environment is likely to remain largely favorable for the development of the group.

The Bulgarian economy is particularly vulnerable to market downturns and economic slowdowns elsewhere in the world. A particular, rising risk are the global trade tensions, which might affect adversely the EU and Bulgaria's economy. The management is unable to determine with precision the longer-term effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

The management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3.2. Financial risk factors

The risk exposures of the Group could be determined as follows: market risk (including currency risk, price risk and risk of future cash flow changes as a result of changes in market interest rate), credit risk and liquidity risk. The Group's management focuses on the financial risk and seeks to minimise potential adverse effects on the Group's financial performance.

3.2.1. Market risk

a) Currency risk

The Group is not exposed to serious foreign exchange risk as most of its activities are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR. In 2017 the group had minor exposure to USD and CHF projects and although the negative trend of the exchange rate USD/BGN and CHF/BGN resulted in foreign exchange loss it did not affect significantly the financial position of the group.

The Group's management does not believe that the peg will change within the next 12 months and therefore no sensitivity analysis has been performed.

b) Price risk

The Group's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Group.

3.2.2. Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis and addresses the underlying risk.

3.2.3. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

3.2.4. Liquidity risk

In the context of its underlying activities, the Group is able to maintain flexibility in funding and to use credit lines, overdrafts and other credit facilities, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As of 31 December 2016	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	352	-	-	200
As of 31 December 2017	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	489	-	-	200

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Useful life of property, plant and equipment

The presentation and valuation of property, plant and equipment requires the Management to estimate their useful life and remaining value. The Management assesses at the end of each accounting period the determined useful life of the property, plant and equipment.

Impairment of loans and receivables

Impairment of receivables is determined based on Management's expectations for the collectability of the loans and receivables. As at the date of preparation of the financial statements, the Management reviews and assesses the existing receivables' balances for collectability.

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5. Property, plant and equipment

Cost	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	1,135	-	-	1,135
Computers	270	3	-	273
Vehicles	243	-	-	243
Fixtures & Fittings	111	-	-	111
Other assets	12	-	-	12
Assets under construction	911	-	-	911
Total	2,682	3	-	2,685
Depreciation	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	29	-	-	29
Computers	218	39	-	257
Vehicles	223	7	-	230
Fixtures & Fittings	99	3	-	102
Other assets	3	-	-	3
Assets under construction	-	-	-	-
Total	572	49	-	621
Carrying amount	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	1,106	-	-	1,106
Computers	52	-	36	16
Vehicles	20	-	7	13
Fixtures & Fittings	12	-	3	9
Other assets	9	-	-	9
Assets under construction	911	-	-	911
Total	2,110	-	46	2,064

6. Intangible assets

Cost	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	98	-	-	98
Others	687	6	-	693
Total	785	6	-	791

Depreciation	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	92	1	-	93
Others	308	154	-	462
Total	400	155	-	555

Carrying amount	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	6	(1)	-	5
Others	379	(148)	-	231
Total	385	(149)	-	236

7. Investment property

	2017	2016
As of 1 January		
Carrying amount at the beginning of the period	362	365
Depreciation charge	(4)	(3)
Carrying amount at the end of the period	358	362
As of 31 December		
Cost	508	508
Accumulated depreciation	(150)	(146)
Carrying amount	358	362

Investment properties of the Group consist of land and buildings acquired in the period 2005 – 2006. Investment property is presented at cost less accumulated depreciation and impairment losses.

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8. Trade and other receivables

	As of 31 December	
	2017	2016
Short-term loan	122	116
Trade receivables	552	520
Trade receivables, net	<u>674</u>	<u>636</u>
Other	51	47
	<u><u>725</u></u>	<u><u>683</u></u>

The carrying amount of trade and other receivables approximates their fair value.

9. Cash and cash equivalents

	As of 31 December	
	2017	2016
Cash at hand	18	23
Cash in bank current accounts	1,262	646
	<u><u>1,280</u></u>	<u><u>669</u></u>

10. Trade and other payables

	As of 31 December	
	2017	2016
Long-term liabilities		
Long-term loans	<u>200</u>	<u>200</u>

	As of 31 December	
	2017	2016
Short-term liabilities		
Payables to partners and suppliers	243	225
Salaries and social securities payables	50	49
Tax	4	1
Other	192	154
	<u><u>489</u></u>	<u><u>429</u></u>

Loans liabilities represent a loan granted in 2009 by IR Communication EOOD to Project 1 EOOD. According to the loan contract the interest rate is 3.5 %.

11. Deferred financing

	As of 31 December	
	2017	2016
EC – Love Moves: The rights of recognized same-sex partners moving across the EU	77	
EC – Innovative Methods to Investigate Fraud and Corruption in EU funding for agriculture	52	
European Climate Foundation – SEERMAP Regional Report	15	
Delegation of the European Union to Montenegro – Initiative for Open Judiciary	3	
European Climate Foundation – SEERMAP Regional Report	20	
Smith Richardson Foundation – The Kremlin Playbook 2	80	
UNODC/Transparency International – Anti-Corruption Southeastern Europe Regional Platform Follow Up	8	
Open Society Foundations – Mind the gap! – Facilitating access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Romania and Romania	15	
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation	16	
EC – Preventing and Combatting Racism and Xenophobia through Social Orientation of Non-Nationals	116	
Smith Richardson Foundation – The Wind That Blows from the East: Understanding Russian Influence in Europe	7	
Ministry of Interior – Development and Implementation of Unified Standards for Forced Return Monitoring (RETURN 2)	4	
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings	67	
EC – Financing Organised Crime Activities – focus on Human Trafficking	129	
German Marshall Fund of the US – Russian Economic Influence and Media Capture in the Black Sea Region	55	
Ministry of Interior of Bulgaria – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrants Crisis	25	
EC – Assessing the risk of isolation of suspects and accused	76	

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	As of 31 December	
	2017	2016
Central Finance and Contracts Unit (CFCU) – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region		17
European Climate Foundation – SEERMAP		21
EC – Countering Radicalisation in Southeast and Central Europe Through Development of (Counter-) Radicalisation Monitoring Tool		157
EC – Developing Directive-compatible practices for the identification, assessment and referral of victims		5
EC – Enabling the Energy Union through understanding the drivers of individual and collective energy choices in Europe – ENABLE.EU	138	345
EC – ON-THE-MOVE – The Reality of Free movement for Young European Citizens Migrating in Times of Crisis		10
EC – The Private Corruption Barometer – Drafting and piloting a model for comparative business victimization survey on private corruption in the EU	6	138
EC – Towards a EU Data Management System for Seized Assets	126	202
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals	38	31
EC – Improving and Sharing Knowledge on the Internet Role in the Human Trafficking Process		123
Foundation Open Society Institute (FOSI) Budapest – State Capture Risks in Europe: Monitoring and Policy Options	128	75
Ministry of Interior – National Study on Domestic and Gender Based Violence and Elaboration of Victims Support Model		34
UNODC/Transparency International – Anti-Corruption South-eastern Europe Regional Platform		9
EC – Out of the Shadows: Developing Capacities and Capabilities for Tackling Underclared Work in Bulgaria, Croatia and FYR Macedonia		114

	As of 31 December	
	2017	2016
PMI IMPACT – The ITTP along the Balkan Route: Addressing Institutional Gaps and Corruption	133	
Other		3
Total deferred financing related to projects	1,334	1,284
Financing for acquisition of fixed assets	10	17
Total deferred financing	1,344	1,301

12. Revenues from grants financing

Revenues from grants financing and other project for respective periods are as follows:

	As of 31 December	
	2017	2016
EC – Countering Radicalisation in Southeast and Central Europe Through Development of (Counter-) Radicalisation Monitoring Tool	221	
Ministry of Interior – National Study on Domestic and Gender Based Violence and Elaboration of Victims Support Model	76	
EC – Improving and sharing knowledge on the Internet role in the human trafficking process	140	
EC – ON-THE-MOVE – The Reality of Free movement for Young European Citizens Migrating in Times of Crisis	18	
EC – Developing Directive-compatible practices for the identification, assessment and referral of victims	21	
EC – Towards a EU Data Management System for Seized Assets	76	
EC – The Private Corruption Barometer – Drafting and piloting a model for comparative business victimization survey on private corruption in the EU	131	
European Climate Foundation – SEERMAP	24	
EC – Enabling the Energy Union through understanding the drivers of individual and collective energy choices in Europe – ENABLE.EU	207	

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	As of 31 December	
	2017	2016
UNODC/Transparency International – Anti-Corruption South-eastern Europe Regional Platform	15	
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings	102	
EC – Financing Organised Crime Activities – focus on Human Trafficking	136	
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation	23	
CIPE – From Kleptocracy to State Capture: Understanding Russian Influence in the Western Balkans	112	
Ministry of Interior of Bulgaria – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrants Crisis	97	
Regional Cooperation Council – SEE Platform for Cooperation against Corruption and its Links to Organised Crime	63	
EC – Assessing the Risk of Isolation of Suspects and Accused	23	
The German Marshall Fund of the United States – Russian Economic Influence and Media Capture in the Black Sea Region	15	
Open Society Foundations – Mind the gap! – Facilitating access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Romania and Romania	17	
European Climate Foundation – SEERMAP Regional Report	14	
Smith Richardson Foundation – The Kremlin Playbook 2	23	
EC – Anticorruption Policies Revisited. Global Trends and European Responses to the Challenge of Corruption		86
EC – Building a Platform for Enhanced Societal Research Related to Nuclear Energy in Central and Eastern Europe		45
EC – Countering Extortion Racketeering in the EU		233
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	28	230

	As of 31 December	
	2017	2016
EC – Law, Economy, Competition and Administration – Developing an Interdisciplinary Approach in the Fight against Public Procurement Criminality		82
Bulgarian – Swiss Cooperation Programme – Overcoming Institutional Capacity Gaps to Counter Corruption and Organized Crime in Bulgaria	256	345
EC – New European Crimes and Trust-Based Policy		12
DCAF – Private Security Companies in the Western Balkans	12	41
EC – Civil Society Organizations as Guarantors for the Rights of Vulnerable Groups		21
U.S. Department of State – The Media as an Instrument for State Capture		60
Foundation Open Society Institute – Impact Metrix: Towards Designing a State Capture Index		18
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring SOE Governance in the Energy Sector		59
EC – Promoting Good Governance and Economic Rights through Empowering Civil Society to Monitor and Tackle the Hidden Economy in the FYR of Macedonia		60
U.S. Department of State – The Wind that Blows from the East: Understanding Russian Influence in Europe		270
EC – Augmenting Demand for Anti-Corruption and Organised Crime		31
Foundation Open Society Institute – Streamlining NGO registration		53
EEA FM and NFM 2009 – 2014 – Punishment vs. Treatment: The Situation of Drug Users in Prison		31
Central Finance and Contracts Unit (CFCU), Turkey – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region	43	44
EU Strategy for the Danube Region – START – Roma integration across the Danube: Best practices and social entrepreneurship models exchange between Romania and Bulgaria	1	13

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	As of 31 December	
	2017	2016
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals	82	46
Ministry of Interior – Development and Implementation of Unified Standards for Forced Return Monitoring (RETURN 2)	39	20
Foundation Open Society Institute Budapest – State Capture Risks in Europe: Monitoring and Policy Options	134	20
Other projects	29	117
Total Revenues from grants financing	2,178	1,937
Revenue from unconditional donations	7	10
Other revenues	8	23
Total Revenues	2,193	1,970

13. Cost of sales and administrative expenses

Cost of sales and administrative expenses of the Group include:

	As of 31 December	
	2017	2016
Expenses for materials	16	15
Hired services	1,256	733
Depreciation and amortisation	159	94
Salaries and wages	919	1,083
Social securities	133	146
Other expenses	568	456
Total Expenses	3,051	2,527

14. Finance costs, net

	As of 31 December	
	2017	2016
Interest income	-	-
Interest, net	<u>-</u>	<u>-</u>
Foreign exchange income	7	2
Foreign exchange expense	(44)	(19)
Foreign exchange, net	<u>(37)</u>	<u>(17)</u>
Other financial expenses	(13)	(8)
Other financial, net	<u>(13)</u>	<u>(8)</u>
Finance costs, net	<u><u>(50)</u></u>	<u><u>(25)</u></u>

15. Income tax

The major components of income tax expense for the year ended 31 December 2016 and the period ended 31 December 2017 are:

	As of 31 December	
	2017	2016
Current tax	7	10
Income expense	<u><u>7</u></u>	<u><u>10</u></u>

The official rate stated in Corporate Tax Law for 2017 was set to 10 % (2016:10 %). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

Movement in deferred tax

	Balance as of 1 January 2017	Movement	Balance as of 31 December 2017
Property, plant and equipment	-	-	-
Trade payables	-	-	-
Net deferred tax asset/liability	<u>-</u>	<u>-</u>	<u>-</u>

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The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Groups' management is not aware of any circumstances which may give rise to a potential material liability in this respect.

There have been no tax checks performed in recent years.

16. Related parties

The Group is related party to the Applied Research and Communication Fund and its subsidiaries.

The following transactions occurred during the year:

Related party	Transactions during the year	January-December		31 December		31 December	
		2017	2016	2017	2016	2017	2016
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Applied Research and Communication Fund	Rental contract	48	45				
ARC Consulting EOOD	Consulting services/ Rental contract	15	12			226	226
IR Communications	Loan agreement					200	200
Bulgarian Association for Policy Evaluation	Loan agreement	6	16	142	136		
		69	73	142	136	426	426

Transactions with directors and other members of the management

Total amount of the remunerations and social contributions included in the expenses for external services is as follows:

	2017	2016
Board of Trustees and Executive Directors	251	305

17. Events after the balance sheet date

There were no events after balance date requiring corrections of the financial statements or disclosures.