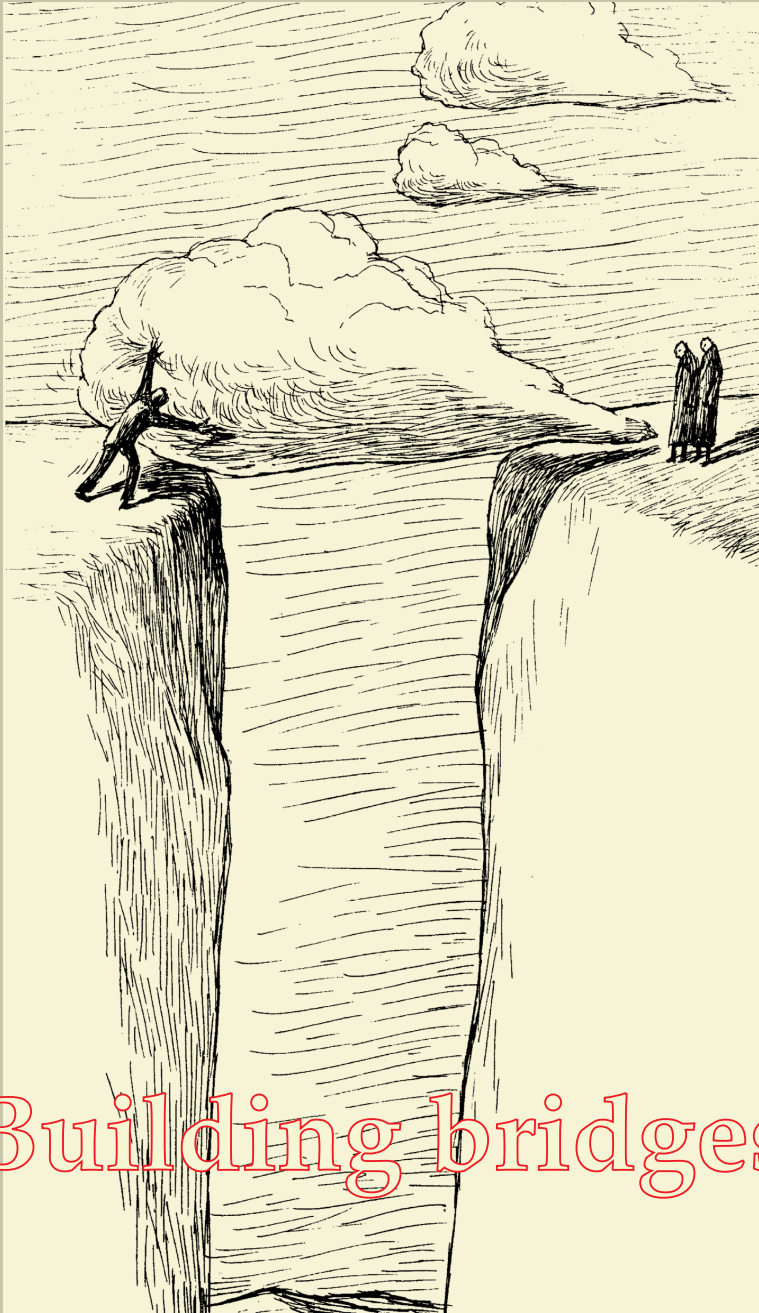


# CENTER FOR THE STUDY OF DEMOCRACY

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ANNUAL REPORT 2003



Building bridges

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**CENTER FOR THE STUDY OF DEMOCRACY  
2003 ANNUAL REPORT**

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Drawing: Anri Koulev

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5 Alexander Zhendov St., 1113 Sofia, Bulgaria

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# Center for the Study of Democracy

*Building Bridges between Scholars and Policy Makers*

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

CSD objectives are:

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

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

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

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

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# Introduction

Since its establishment in 1990, the Center for the Study of Democracy has sought to pioneer difficult reforms and provide vision as to the future challenges facing Bulgaria and the Balkan region. CSD's strong institutional capacity has opened new avenues and areas where civil society can make a contribution to reforms. Over the years, CSD has taken the lead in advocating key reforms in areas such as the regulatory framework for non-profits, establishment of the ombudsman institution, the introduction of anti-smuggling policies and other areas.

As the international understanding of security has been developing to include now areas such as corruption, terrorism, organized crime, trafficking and smuggling, CSD has turned its attention to the governance of the security sector. This is an area of particular relevance in the process of joining the European Union and NATO. Bringing the civil society perspective to these issues is particularly timely as the ramifications of the new security threats go beyond the area of law enforcement. Thus, CSD's overall contribution has been to bridge the democracy and development agendas, on the one hand, and the security agenda, on the other.

The Center is also expanding its public-private cooperation approach to these issues. In 2003, CSD contributed to the shaping of the new security agenda in Southeast Europe. Its high profile international conference in September, brought together the NATO Secretary General Lord Robertson, representatives of international institutions, the ministers of defense and interior of the SEE countries and civic leaders in a discussion of the future security risks facing the region.

CSD's increasing impact in the field of justice and home affairs was evident in the development of the first comprehensive analysis of the consumption and distribution of drugs in Bulgaria. By combining its monitoring and analytical capacity, CSD presented to the Bulgarian and international community a snapshot of the prevalence of drug use and the mechanisms of the organized criminal networks which distribute narcotics in the country. Since its publication, CSD's study of the drug market has been a constant source of authoritative reference by government officials and investigative journalists.

Initiated and advocated for over six years now by CSD, the establishment of the ombudsman institution made a breakthrough in 2003 with the adoption of the Law on the Ombudsman and the amendments to the local self-government legislation providing for the set up of local ombudsman offices. Changes to the local government law were made possible mainly through the expert and advocacy contribution of CSD which had already worked with a number of municipalities to promote a culture of civic mediation.

Judicial reform, and its anti-corruption dimension in particular, is among the key current priorities for Bulgaria identified both by the international community and by domestic stakeholders. Although it is accelerating, especially driven by Bulgaria's EU accession prospects, reform of the judiciary has still a long way to go



and faces significant challenges. In order to assist this reform, in 2003 the Center for the Study of Democracy published a *Judicial Anti-Corruption Program (JACP)*. JACP was the first document of its kind detailing a comprehensive agenda for reducing corruption within the judiciary and enhancing its efficiency in penalizing administrative and political corruption. The Program deals with the most significant constitutional, legislative and institutional aspects of anti-corruption measures in the judiciary and combines gap analysis with extensive policy recommendations. Hailed as a “reference book” by reformist magistrates, the JACP put forward some significant reforms in the governance of the Bulgarian judiciary mostly related to increased judicial independence, accountability and efficiency in combating corruption, including within its own ranks. Some of the key recommendations made include a qualified majority requirement for the election of the country’s most senior judges and the Prosecutor General by the Parliament, and for the election of the Parliamentary quota in the Supreme Judicial Council, the governing body of the judicial branch. The JACP also suggested that a new independent institution be established to prosecute instances of corruption within the judiciary or among senior government officials.

CSD places a particular emphasis on its watchdog efforts. Aided by a significant survey research capacity at its agency *Vitoshka Research*, in 2003 the Center brought to the public attention the issue of corruption in secondary and higher education. The publication of CSD’s monitoring results sparked wide public debate on the policies and transparency mechanisms in this area which had not escaped public scrutiny until then.

Sofia, February 2004



Dr. Ognian Shentov  
CSD Chairman

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# **Part One**

## **Program Reviews**



# Law Program

In the year 2003 the main objective of the Law Program was further promotion of the judicial and legislative reform as well as democratic institutions building. The activities were focused on developing the *Judicial Anti-Corruption Program*, further popularizing the role of the ombudsman institution as a new human rights protection mechanism on both national and local level and drafting legislative suggestions.

## 2003 Highlights

- The process of introducing the Ombudsman institution on national and local level in Bulgaria, and the development of the respective legislation, initiated by CSD Law Program, marked significant progress with the adoption of the Law on the Ombudsman and the amendments to the Law on Local Self-Government and Local Administration.
- Following the adoption of the Law on the Ombudsman and the amendments to the Law on Local Self-Government and Local Administration CSD continued to work on improving the legal framework on the Ombudsman institution in order to overcome some of the existing flaws in the newly adopted legislation.
- The area and scope of the public awareness campaign aimed at promoting the ombudsman institution on both national and local level were further expanded. After the adoption in 2003 of the Law on Ombudsman and the Law on Amending and Supplementing the Law on Local Self-Government and Local Administration a number of public policy and training events throughout the country have been held - information days, municipality training seminars, training of trainers, workshops, public hearing, etc.
- The Law Program continued its long-term efforts to contribute to the judicial reform process in Bulgaria so that a working, stable, corruption-free judiciary to be built up. Acting as Secretariat of the *Judicial Reform Initiative*, the CSD Law Program brought together eminent members of the legal professions in Bulgaria including magistrates, representatives of influential non-governmental organizations and of state institutions, who developed a *Judicial Anti-Corruption Program* (JACP). It focused on the prevention and suppression of corruption inside the Judiciary, identifying the most important reform areas and formulating a set of recommendations and mechanisms for achieving legal stability and confidence in the Judiciary.
- Proposals for amendments to the Constitution concerning judicial reform as well as proposals for legal provisions on the ombudsman institution to be included in the Bulgarian Constitution have been drafted.
- The efforts of the Law Program E-Signature Task Force which drafted the Law on Electronic Document and Electronic Signature have been aimed at facilitating the implementation of this modern legislation through developing Commentary on the Law and carrying out a series of awareness events.
- The activities for introducing a modern registration system in Bulgaria continued with elaboration of proposals and recommendations for establishing an Electronic Registries Center to be included in the amendments and supplements of the Plan for the Implementation of the E-Government Strategy (2003-2005).

## I. Legislative Reform

### 1. Introducing Ombudsman Institution in Bulgaria

#### *Advocating the Legislative Process*

*Adoption of the Legal Framework for Establishing the Ombudsman Institutions on National and Local Level*

*As a result of the five-year efforts of the civil society in Bulgaria and particularly of the CSD for introducing ombudsman type institution in the country, the Law on the Ombudsman was adopted on May 8, 2003 (in force since January 1, 2004). The adopted law incorporates many of the main principles of the CSD draft. In July 2003 amendments to the Law on Local Self-Government and Local Administration were adopted (in force since October 27, 2003). They included provisions enabling municipal councils to elect local public mediators.*

*Although further development of the legal framework of the national and local ombudsman institutions is still necessary, the adopted one creates the initial legal basis for the introduction of ombudsman type institutions on both national and municipal level.*

The adoption of the legal framework for establishing the ombudsman institutions on national and local level motivated the Law Program experts to start work on its improvement in order to overcome some of the existing flaws and secure the most appropriate legal environment for the operation of the ombudsman and the local public mediators.

- A detailed commentary on the existing legal framework was elaborated. The document included an expert analysis

of the advantages and shortcomings of the adopted provisions and offered recommendations for further improvement of the legal framework of the national and local ombudsman type institutions and the interaction between them. The most important aspects that need to be further improved in order to secure the most appropriate legal environment for the operation of the ombudsman are: the requirements and procedure for election and removal of the ombudsman, including the majority vote therefore, the incompatibility provisions, the legal status and the powers of the institution, regulations on the administrative office of the ombudsman, etc.

- Proposals for legal provisions on the ombudsman institution to be included in the Bulgarian Constitution have been drafted. The incorporation of provisions on the ombudsman in the Constitution could not only help to overcome some of the existing weaknesses in the legislation but is also an important step that would create stronger guarantees for the ombudsman's independence and successful performance.

#### *Public Policy Events for Promoting the Ombudsman Institution*

- On July 15, 2003, the CSD hosted a **Public Hearing** on the current state and future development of the legislative framework regulating the introduction of the ombudsman institution on the national and local level in Bulgaria.

The discussion benefited from the contributions and proposals of MPs, senior representatives of the executive, including the Minister of Justice Mr. Anton Stankov, and the judiciary, NGOs representatives and other

experts engaged in drafting the relevant legislation and in establishing the ombudsman institution in Bulgaria.

Among the main topics, discussed at the hearing were: constitutional regulation and improving the legislation regulating the ombudsman institution, legislative regulation of local ombudsman type institutions and raising awareness about the ombudsman institution.

- **A Regional Ombudsman Conference The Ombudsman in South-Eastern Europe**, to review ombudsmen's work in South-Eastern Europe and to consider recommendations for its optimal performance, took place in Sofia at the National Assembly on November 28-30, 2003. The event was organized jointly with the Office of the

Greek Ombudsman in cooperation with the Bulgarian National Assembly and the Bulgarian Ministry of Justice.

The conference provided an opportunity for the participants to discuss the wide range of important issues encountered in the ombudsman's daily work with emphasis on regional particularities. More than 60 foreign participants attended the conference, among them ombudsmen and experts from almost all ombudsman institutions in South-Eastern Europe, the Office of the People's Defender of Catalonia (Spain) and the Office of the Austrian Ombudsman Board, the Council of Europe, the Organization for Security and Cooperation in Europe as well as a number of Bulgarian officials and NGOs representatives, striving to establish and support such institutions.



*Dr. Ognian Shentov, CSD Chairman, opens the public discussion on the forthcoming introduction of the ombudsman institution in Bulgaria. Next to him: Dr. Plamen Panayotov, Deputy Prime Minister of Bulgaria, Dr. Maria Yordanova, Director of CSD Law Program, and Mr. Walter Schimmer, Secretary General of the Council of Europe*

The event allowed Bulgarian participants to benefit from the experience of a number of foreign ombudsmen which would help them with the forthcoming establishment of the institution in Bulgaria.

*Among the most important legal prerequisites for successful functioning of the ombudsman institution is its incorporation in the Constitution. This guarantees the independence and impartiality of the institution, along with the integrity of the office-holder, competence of its staff, and the appropriate infrastructure.*

*The main goal of the ombudsman institutions in South-Eastern Europe is to contribute to the implementation of a long-term administrative reform which is one of the pillars of the rule of law.*

Mr. Yorgos Kaminis,  
Ombudsman of Greece at the  
Regional Ombudsman Conference  
The Ombudsman in South-Eastern  
Europe.

### *Awareness Events for Promoting the Ombudsman Institution*

The awareness campaign for promoting the ombudsman institution both on national and local level, launched by CSD in 1998, gained additional significance with the adoption of the legal framework in 2003. Even before that, in a number of municipalities (Sofia, Veliko Turnovo, Razgrad, Zavet, Loznitsa, etc.) successful experience has been gained with the operation of local ombudsman type institutions, established primarily upon initiative of the civil society on the basis of cooperation with the local self-government authorities.

In 2003 the CSD Law Program broadened its awareness campaign and focused its efforts on training activities, organizing a number of events in municipalities where experience on the ombudsman institution has been accumulated as well as in municipalities where such experience lacks. The events addressed national and municipal politicians and officials, NGOs, and citizens, including specific social groups.



*Dr. Ognian Shentov, CSD Chairman, welcomes the participants at the Regional Ombudsman Conference. Next to him are Mr. Yorgos Kaminis, Ombudsman of Greece, and Mr. Sevdalin Bozhikov, Deputy Minister of Justice*

- **A series of Information Days** were held in the cities of Pleven (February 19), Pazardzhik (February 25), Hissar (October 9), Gotse Delchev (October 17), Kardzhali (November 11), Rousse (December 12) and Batak (December 17).
- **Two Workshops** were carried out on **Gender Equality and Women's Rights** in Veliko Turnovo (October 23) and on **The Ombudsman – New Instrument for Promotion of Disadvantaged Persons' Rights** in Pleven (November 11)
- **Three Municipality Training Seminars on Human Rights Promotion and Protection through Local Ombudsman Institution** were organized in Razgrad (October 6), Pleven (October 22) and Brezovo (December 22) as well as a **Training of Trainers Seminar** in Veliko Turnovo (December 5-6).
- In June 2003 a **Study Visit** to Spain was organized for Bulgarian policy makers and experts to examine the Spanish experience in establishing ombudsman institutions. The Bulgarian group, which included MPs, the Minister of Justice Mr. Anton Stankov and other representatives of the executive, representatives of the judiciary, and CSD experts, had meetings with the Spanish People's Defender and the People's Defender of Catalonia as well as with senior officials from their administrative staff and had the opportunity to discuss various issues related to the functioning of the ombudsman institution. The main objective of the visit was to provide an opportunity for Bulgarian officials to get acquainted with the best practices implemented in Spain, which in turn would help them in the process of setting up the ombudsman institution in Bulgaria.

The legal regulation of the ombudsman in Bulgaria, the powers and functions of the institution and its role for human rights protection, including disadvantaged persons' rights, its interaction with the administration and the future of this type of institution on national and local level were among the main issues discussed at the events, which were organized in cooperation with the local authorities and NGOs.

### *Strengthening the International Cooperation and Sharing Experience*

The cooperation with the European Ombudsman and ombudsman institutions from many European countries is among the priorities of the Law Program activities for introducing the ombudsman institution in Bulgaria. In 2003 the already established contacts have been further developed and new ones have been initiated.

In Madrid the participants met the Spanish People's Defender Mr. Enrique Mugica Herzog and officials from the People's Defender's team. They presented the organization and work of the Office of the Public Defender as a national ombudsman institution. Working meetings were also held with the assistants of the People's Defender responsible for different areas of the institution's activities. Bulgarian representatives had the opportunity to hear the presentation of the Annual Report of the Spanish People's Defender before the Senate and met the Chair of the joint Commission of the Senate and the Congress responsible for the relations with the People's Defender.

In Barcelona the participants had a series of working meetings with the People's Defender of Catalonia Mr. Anton Canelas and his deputies, which presented the specifics of their work as well as the work of a local ombudsman institution.





*At the Office of the Spanish People's Defender (from left to right): Ms. Antoaneta Tzoneva, Sofia Municipality Local Civic Mediator, Ms. Milana Krivachka, Expert, Legal Directorate of the Council of Ministers, Ms. Tatiana Doncheva, Member of Parliament, Dr. Silvy Chernev, Chair of the Court of Arbitration with the Bulgarian Chamber of Commerce and Industry, Mr. Enrique Mugica, People's Defender of Spain, Mr. Borislav Belazelkov, Justice, Supreme Court of Cassation, Mr. Anton Stankov, Minister of Justice, Dr. Maria Yordanova, CSD, Ms. Slavka Slavova, Interpreter, Mr. Dimitar Markov, Project Coordinator of CSD Law Program, Mr. Krassimir Dobrev, Journalist, Sega Daily*



*At the Barcelona city-hall (from left to right): Ms. Antoaneta Tzoneva, Mr. Borislav Belazelkov, Ms. Slavka Slavova, Dr. Maria Yordanova, Mr. Krassimir Dobrev, Ms. Tatiana Doncheva, Dr. Silvy Chernev, Mr. Anton Canellas, People's Defender of Catalonia, Ms. Milana Krivachka, Ms. Ekaterina Mihailova, Member of Parliament, Mr. Dimitar Markov, Mr. Anton Stankov*

Parallel to the presentation of the main characteristics and the experience of the People's Defender the participants were briefed on the history, composition, powers and relations between the main public institutions in Catalonia. A meeting was held with the members of the Parliamentary Commission on the Ombudsman of Catalonia, with the Deputy Mayor of the city of Barcelona – Mr. Jose Ignacio Cuervo, and with representatives of the autonomous government of Catalonia.

The study visit laid sound foundations for cooperation with the People's Defenders of Spain and Catalonia in the process of establishing and strengthening the ombudsman institution in Bulgaria.

*"I hope we'll continue this type of fruitful collaboration in the future, be on the processus for establishment or on the current functioning of Bulgarian Ombudsman as well."*

Mr. Enrique Mugica Herzog, People's Defender of Spain, in a letter to CSD Law Program of August 29, 2003

*"...the visit to the institution, that I have the honour of representing gave you some useful information for the process of establishing an ombudsman in Bulgaria. This was our main goal, and I am very delighted to hear that with the co-operation of all of us we have met this goal. Nevertheless, I hope to keep in touch with you, as I would like to carry out a close follow-up of your experience in creating the institution of the public defender."*

Mr. Anton Canellas, People's Defender of Catalonia, in a letter to CSD Law Program of August 26, 2003.

- On October 14, 2003 the First Deputy of the People's Defender of Spain



*During the meeting at CSD (from left to right): Ms. Luisa Cava de Llano, First Deputy of the People's Defender of Spain, Dr. Maria Yordanova, Director of CSD Law Program, and Dr. Ognian Shentov, CSD Chairman*

Ms. Luisa Cava de Llano visited CSD and took part in a **Discussion Meeting** with senior representatives of the Center. The meeting was attended by the Chief of Cabinet of the First Deputy of the People's Defender of Spain Ms. Carmen Comas-Mata, the Deputy Head of Mission of the Spanish Embassy in Bulgaria Mr. Alfredo Martinez Serano, the Chairman of CSD Dr. Ognian Shentov, the CSD Law Program Director Dr. Maria Yordanova and the Director of the Information Center of the Council of Europe in Sofia Dr. Emil Tsenkov. During the meeting the participants discussed the recent developments regarding the introduction of the ombudsman institution in Bulgaria and the necessary improvement of the legal framework as well as the opportunities for cooperation with the Office of the Spanish People's Defender in the context of the forthcoming practical establishment of the institution in the country.

- The Law Program members presented the development of the process of introducing the ombudsman institution in Bulgaria, including comments on the newly adopted legal framework at a number of international events: a **Workshop on The Ombudsman Role in South-Eastern Europe - Strengthening the Rule of Law as a Step Towards European Integration**, organized by the Greek Ombudsman in Athens (May 22-23, 2003); a **Conference on Ombudsman and the Law of the European Union**, hosted by the Office of the Polish Commissioner for Civil Rights Protection in Warsaw (May 29-30, 2003); a **Minority Ombudsman Conference**, organized by the European Centre for Minority Issues in Berlin (October 16-17, 2003).

## Publications

- The handbook *The Ombudsman Institution in Europe and Bulgaria* (September 2003) presents the recently adopted ombudsman legislation, and includes an updated review of both the general and specific aspects of the European countries' experience; the initiatives and documents of the Council of Europe referring to the establishment by the Member States of ombudsman institutions on national, regional and local level and the cooperation between the ombudsmen of the Member States and between them and the Council of Europe; information on the legal framework and the activities of the European Ombudsman as a mechanism for protecting human rights on European Union level.



- In the brochure *Gender Equality and Ombudsman Institution: Mechanisms for Women's Rights Protection* (October 2003) a comprehensive information about international and European legal framework on gender equality and women's rights protection through Ombudsman institution is included. A useful information about NGOs dealing with gender equality problems as well as about international and national events on protection of women's rights is provided.

- The CSD Law Program produced two articles reviewing the process of establishing the ombudsman institution in Bulgaria for publishing in the *European Ombudsman Liaison Letter*, published by the European Ombudsman



### *Ombudsman Information Network*

The Ombudsman Information Network, launched in 2002, has been further updated and extended during 2003. The web site is divided into several sections: News, Legal Framework in Bulgaria, Bulgarian Parliamentary Ombudsman, Local Ombudsmen in Bulgaria, Public Opinion, European Countries' Ombudsmen, European Ombudsman, Foreign Legislation, Partners, Training, Publications, Other Information Materials, and Links. Besides, a set of navigation tools were also included such as a convenient language changing tool as well as a feedback section (including post address and e-mail). The web site is developed in both Bulgarian and English language in order to serve as a reliable source of information to a broader scope of users in Bulgaria and abroad. The Ombudsman Information Network will continue to be permanently updated following the process of establishment and strengthening the ombudsman institution in Bulgaria.

## 2. Electronic Document and Electronic Signature

The legal regulation of electronic documents and electronic signatures continued to be a major area of the Law Program's activities. The Law on Electronic Document and Electronic Signature, developed by the Law Program experts and effective since October 2001, created a favorable legal environment for the use of electronic communications in the country. In the context of a gradually increasing use of e-documents and e-signatures the main objective of the Law Program in 2003 was to respond to the new challenges related to the implementation of the e-signature legislation.

- The members of the Law Program E-Signature Task Force finalized their work on developing a **Commentary on the Law on Electronic Document and Electronic Signature**. The commentary will be published in the book *Electronic Documents and Electronic Signature. Legal Framework*, which will include also a glossary, a number of relevant international legal instruments, European Union acts and foreign legislation as well as two separate papers: one on the compliance of the Bulgarian law with the EU Directive on Electronic Signatures, and the other on the computer crimes under Bulgarian criminal law. The edition is aimed to serve as a manual for representatives of governmental institutions, business community lawyers, academicians, and experts dealing with or interested in the legal regulation of e-signatures.
- In order to further facilitate the implementation of the e-signature legal framework the Law Program jointly with Applied Research and Communications Fund held a **Discussion Forum on The Use of Electronic Documents and Electronic**

**Signatures in the Public Sphere.** The participants at the event, which took place in Sofia on November 6, 2003, got acquainted with the provision of certification services for universal electronic signatures and had the opportunity to discuss the legal and technological aspects of the use of electronic documents and electronic signatures in the relations within and between governmental authorities, and between them and other persons. The work of the Law Program E-Signature Task Force was presented by the Director of the Law Program Dr. Maria Yordanova. Besides, the event provided an opportunity for the first two certification service providers, registered by the Communications Regulation Commission, namely Information Services PLC and Bank-service JSC to present their services related to the issuance of certificates for universal electronic signatures.

- Aiming to raise the awareness on the new electronic means of communication, including the use of electronic signatures, among the policy makers the Law Program jointly with the Bulgarian International Business Association organized a **Seminar on E-Government in Bulgaria and Strategy for IT Sector Development.** The event took place at the National Assembly on November 25, 2003, bringing together both MPs and high-ranking administrative officials of the Parliament. The participants got acquainted with the principles of e-government and the possibilities for their practical implementation in Bulgaria. In his opening remarks Mr. Nikolay Kamov, Member of Parliament, presented his initiative for the introduction of a yearly report on e-government, which is planned to be submitted by the Government and discussed and approved by the Parliament.

- As a next step towards completing the legal framework for the use of electronic documents and electronic signatures the Council of Ministers by Decision No. 771 of November 6, 2003, set up an **Inter-Agency Task Force** to elaborate the legal framework for issuance and acceptance of electronic documents, signed with universal electronic signatures, within the judiciary. Relying on the considerable experience and active contribution of the Law Program to the elaboration of the Law on Electronic Document and Electronic Signature, the Government invited representatives of the Program as members of the task force together with experts from the Council of Ministers, the Communications Regulations Commission, the Ministry of Justice, the Ministry of Interior, and the Ministry of Defense.

### 3. Exploring the Idea of Establishing a National Agency for Combating Corruption

The idea of establishing an independent national Agency for Combating Corruption was launched by the Bulgarian President Mr. Georgi Purvanov at the beginning of 2004.

- On February 25, 2003, the Center for the Study of Democracy held a **Round Table on Establishing a National Agency for Combating Corruption: Pro and Contra.**

The core issues of the concept for establishing a national agency for combating corruption and the foreign experience with the establishment of independent anti-corruption agencies were presented. MPs, the Minister of Justice and Chairman of the Anti-Corruption Coordination Commission Mr. Anton Stankov, representatives of the executive and the judiciary, non-governmental organizations and experts

participated in the discussion that followed, focusing on the legal and institutional possibilities and obstacles for the implementation of the concept.

- On March 28, 2003, the Center for the Study of Democracy and *Coalition 2000* organized a **Round Table Discussion on Independent Agency for Combating Corruption: Romanian Experience** with guest expert Mr. Terry Lord, Resident Legal Advisor at the US Embassy in Romania. Members of the Parliamentary Anti-Corruption Committee, representatives of the Governmental Anti-Corruption Commission, the National Investigation Agency and non-governmental organizations were invited to take part in the discussion. Mr. Terry Lord presented practical aspects of the work of the Romanian Anti-Corruption Public Prosecutor's Office.
- Representatives of the Law Program took part in a **Video Dialogue** between the Hong Kong Independent Commission Against Corruption (ICAC) and the Bulgarian President's Office organized jointly by the World Bank and Applied Research and Communications Fund on May 19, 2003. Based on the Commission's experience the discussion focused on the expedience of the establishment of an autonomous anticorruption unit in Bulgaria.

## II. Judicial Reform

### 1. Developing the Judicial Anti-Corruption Program

In 2003 the Law Program concentrated its efforts on developing a *Judicial Anti-Corruption Program (JACP)* relying on the experience accumulated in the frame of *Judicial Reform Initiative*.

The *Judicial Anti-Corruption Program* has been developed by lead members of the legal professions in Bulgaria, including magistrates, and has emerged from the joint efforts of influential non-governmental organizations, representatives of Government agencies and experts to ensure the successful implementation of judicial reform in Bulgaria. The Program builds on the suggestions made in the *Program for Judicial Reform (2000)*, on a number of measures from the *Government Strategy for Reform of the Judiciary in Bulgaria (2001)* and on the steps proposed within the framework of various civic anti-corruption initiatives and international instruments for monitoring and evaluation of judicial reform in Bulgaria, while focusing on the prevention and suppression of corruption inside the Judiciary. In the drafting process, the results have been taken into consideration of the public opinion polls on judicial reforms, and in particular of the survey *Corruption and Anti-corruption: The stand of magistrates* (April - May 2003), conducted by the *Vitosha Research Agency* within the framework of the Corruption Monitoring System of *Coalition 2000*. The survey was carried out among 454 magistrates from all branches of the judiciary all over the country and was concentrated on the magistrates' opinions on a wide range of problems concerning the organiza-



tion and the work of the judiciary, the spread of corruption within it, the reasons for arising and the ways to counteracting corruption.

The *JACP* first draft prepared by the end of April 2003 has been presented to a number of state institutions, NGOs, professional associations, the media, experts and citizens so that they could provide their opinions, recommendations and proposals for its improving. The separate parts of the Program contain a set of specific short-term measures and long-term recommendations in the following areas of the judicial reform:

- Reform in the Organization of the Judiciary;
- Reform in the Administration of Judicial Bodies;
- Training of Magistrates and Court Clerks;
- Reform in main Law branches: Criminal Law and Procedure, Civil

Law and Procedure, and Administrative Law and Procedure.

Special attention has been given to the opening the Judiciary towards the public.

- On June 24, 2003 the *JACP* revised draft was discussed at a **Working Meeting** held at the Center for the Study of Democracy. It was attended by Mr. Sevdalin Bozhikov, Deputy Minister of Justice, Ms. Nelly Koutzkova, Chair of Sofia District Court and member of Supreme Judicial Council, Dr. Silvy Chernev, Chair of the Court of Arbitration with the Bulgarian Chamber of Commerce and Industry, senior magistrates from all the branches of the Judiciary, MPs, representatives of the executive and NGOs, as well as UNDP, the Delegation of the European Commission to Bulgaria, ABA/CEELI, USAID, experts, and journalists. During the discussion the participants stressed on the necessity of the proposed in *JACP* reforms and made some concrete suggestions.



*From left to right: Dr. Silvy Chernev, Chair, Court of Arbitration with the Bulgarian Chamber of Commerce and Industry, Dr. Maria Yordanova, Director, CSD Law Program, Mr. Sevdalin Bozhikov, Deputy Minister of Justice, and Ms. Nelly Koutzkova, Chair, Sofia District Court*

Dr. Chernev expressed the opinion that the procedural legislation is the basis of a quick and efficient administration of justice and what is needed is detailed concept for proceedings reform instead of *ad hoc* amendments, which often had reverse effect. Mr. Bozhikov announced that a draft Code of Administrative Procedure is already developed and will be discussed in the near future, and that drafts of new Code of Criminal and Code of Civil Procedure are being prepared.

- In September 2003 the *Judicial Anti-Corruption Program* was published in Bulgarian and in English (with the support of UNDP - Bulgaria, and *Coalition 2000*) and on October 2, 2003 was presented at a **Press Conference**, organized by CSD. Mr. Mario Dimitrov, Deputy Minister of Justice expressed the support of the Ministry for a considerable part of the proposals and underlined that the measures offered, including long-term ones would prompt a further debate for reaching consensus on the priorities of judicial reform. The UNDP Resident

Representative Mr. Neil Buhne stressed on the necessity of more transparency, efficiency and accessibility of the judiciary as an important part of the positive development of the Bulgarian society that corresponds with the goals and principles of the United Nations.

Members of the Task Forces involved in developing *JACP*, MPs, representatives of all judicial branches and the executive, NGOs, foreign and international organizations, journalists also took part.

- The CSD Law Program and its expert team continued to provide assistance to the Parliament and different executive agencies in drafting legislation regarding judicial reform and other related issues. On the request of the Chair of the *ad hoc* Parliamentary Committee on Amendments to the Constitution, **proposals for amendments to the Constitution** prepared by the Law Program experts have been submitted to the Committee and highly appreciated.



*Dr. Maria Yordanova (right), Director of CSD Law Program, presents the Judicial Anti-Corruption Program at a press conference at CSD. Next to her (from right to left): Mr. Mario Dimitrov, Deputy Minister of Justice, and Mr. Neil Buhne, UNDP Resident Representative*



## 2. Continuing Efforts for Reforming the Registration System in Bulgaria

In 2003 the CSD Law Program Task Force on Registration Reform completed its two-year work on studying the foreign practices in the area of establishment and operation of modern registration systems and preparation of a proposal for a overall reform of the registration system in Bulgaria.

These efforts resulted in a publication of the brochure *Opportunities for Establishment of Central Register of Legal Persons and Electronic Registries Center in Bulgaria* (May 2003). The brochure includes the full text of the report, review of the foreign experience in developing central electronic registers and a proposal for the structure of an Electronic Registries Center in Bulgaria and was widely disseminated among state institutions, NGOs and the business community.

It was presented on May 13, 2003, at a discussion on **Judiciary and Business in Bulgaria**, organized by the Ministry of

Justice, the Union of Bulgarian Jurists, the Open Society Foundation, the Bulgarian Business Leaders Forum, the Bulgarian International Business Association and the American Chamber of Commerce in Bulgaria. The Task Force report and the proposals on registration reform enjoyed great interest among the participants in the event.

*CSD Task Force elaborated and sent its proposals and recommendations for establishing an Electronic Registries Center to be included in the amendments and supplements of the Plan for the Implementation of the E-Government Strategy (2003-2005), which is to be discussed in 2004.*

## 3. Introducing European Standards in Reforming Judiciary. Exchange of Experience

- On April 30, 2003 a **Discussion on Spanish Experience in Reforming Judiciary** took place in Madrid with



*From left to right: Dr. Maria Yordanova, Director of CSD Law Program, Mr. Alberto Dorrego, Director on Modernization of the Judiciary in the Spanish Ministry of Justice, and Mr. Jose Lopez-Jorin, Spanish Ambassador to Bulgaria*

participation of CSD representatives (Dr. Ognian Shentov, Chairman, Mr. Vladimir Yordanov, Executive Director, and Dr. Maria Yordanova, Director of the Law Program), as well as of Spanish judiciary: Mr. Joaquin Delgado Martin, Head of Department in the General Judicial Council in Spain, Mr. Celso Rodriguez Padron, Secretary General of the General Judicial Council, and Mr. Juan Pablo Gonzalez, President of the International Relations Committee at the Council. During the discussion the judicial reform process in Bulgaria and the Spanish experience of reforming the judiciary were debated in the context of specific Spanish transition based on consensus. Among the most important issues discussed were also the functions and competence of the Judicial Council and of the Spanish Ministry of Justice, the political consensus as a key prerequisite for successful reforms, the system of internal control within the Council, including mechanisms for preventing malfeasance and corruption among the judges,

the successfully implemented principle to separate the political and administrative governance of the judiciary.

The participants in the discussion agreed that the main message to Bulgaria would be the reaching of political consensus on the main steps of the judicial reform following the Spanish experience of entering into a State Pact on the Judicial Reform.

After the discussion the Spanish judiciary representatives expressed their willingness to support and further to assist the process of reforming Bulgarian judiciary including in cooperation with NGOs.

- On May 29, 2003, the CSD Law Program hosted a **Round Table on Spanish Experience in Reforming the Judiciary**. Mr. Alberto Dorrego, Director on Modernization of the Judiciary in the Spanish Ministry of Justice introduced the general stages and the most significant prerequisites for the reform of the judiciary in



*Dr. Ognian Shentov (right), CSD Chairman, talks about the efforts of CSD for reforming Bulgarian judiciary. Next to him: Mr. Juan Pablo Gonzalez, President of the International Relations Committee of the Spanish General Judicial Council, and Mr. Joaquin Delgado Martin (left), Head of Department in the General Judicial Council*

Spain and underlined that the basis of this reform was the achievement of political consensus, manifested in a State Pact on the Judicial Reform.

The main conclusion of the Round Table discussion was that the three basic elements to guarantee independence and efficiency of the judiciary are: legislative amendments, organizational reforms and reform in the administration and infrastructure of the judiciary.

- A judicial reform based on a broad political consensus as the most appropriate solution for Bulgaria was further discussed during a **Working Meeting** on November 25, 2003 in Sofia with the participation of Mr. Juan Pablo Gonzalez, Dr. Ognian Shentov, and the senior staff of the CSD Law Program. The meeting was attended also by Mr. Joaquin Delgado Martin, and Mr. Alfredo Martinez Serano, Deputy Head of Mission of the Spanish Embassy in Bulgaria.

#### 4. Other Events

- A **Round Table on Constitution and Judicial Reform in Bulgaria** was held by CSD jointly with the Union of Bulgarian Jurists on April 15, 2003. The Round Table provided a forum for discussion on the constitutional amendments, proposed by different institutions and political parties, the Declaration signed between them, and the Decision of the Constitutional Court No 3 of April 10, 2003 on Constitutional Case No 22 of 2002. The Minister of Justice Mr. Anton Stankov, MPs, Members of the Constitutional Court, magistrates, representatives of governmental authorities and NGOs, academicians and experts took part in the discussion. Mr. Vladislav Slavov, Chairman of the Supreme Administrative Court

(since June 30, 2003 – a member of the Constitutional Court) and of the Union of Bulgarian Jurists, and Mr. Anton Stankov underlined the necessity of a number of constitutional amendments corresponding to the upcoming accession of Bulgaria to the EU and to domestic needs. Ms. Ekaterina Mihailova, MP from the United Democratic Forces, expressed her support to the idea of carrying out constitutional reforms in close cooperation with the non-governmental sector.

- On June 6, 2003 a **Round Table on Ethics and Standards in Legal Professions** was held. It was organized jointly by the Union of Bulgarian Jurists, the Center for the Study of Democracy, ABA/CEELI and USAID. Among the participants were Mr. Vladislav Slavov, Mr. Douglas Francis, Liaison, ABA/CEELI, Mr. Gene Gibson, Senior Advisor at the USAID, judges, prosecutors, investigators, attorneys, court clerks, and other legal experts. The discussion focused on mechanisms for application of codes of ethics and adoption of these codes; the mandate of the adopting institution; the obligatory character of rules of ethics; sanctions for not complying with rules of ethics; the risk of mechanical transformation of rules of ethics from other legal systems.

At the end of the event the participants approved and endorsed a Closing Document of the Round Table that recommends: the development of codes of ethics for all legal professions and rules and mechanisms for their implementation; the drafting of legislative amendments envisaging such codes of ethics and sanctions for not complying with them; the introduction of courses on Ethics and Standards in Legal Professions in the universities' schools of law, etc.

# Economic Program

The main objective of the Economic Program in 2003 was to support the development of a sound competitive environment, business integrity and enterprise. Its activities focused on three thematic areas: informal economy, corporate governance and self-regulation and horizontal accountability and enterprise.

## 2003 Highlights

### *Informal Economy*

- *Watchdog*: Informal economy measures topped the national economic policy agenda in 2003. In the framework of *Coalition 2000*, CSD developed and tested an informal economy index, measuring its dynamics in its different forms (labor market, taxes, contraband, etc.) to assess economic policy impact. The index received wide media and policy attention.
- *Networking*: CSD expanded its domestic and international expert networks in 2003 sharing best practices in research, advocacy and policy actions. Economic program experts presented CSD research at two international conferences on informal labor, which aimed to advise the EU Italian Presidency on EU wide strategy against undeclared work
- *Knowledge Sharing*: CSD published two conference books (one in Bulgarian and one in English) and more than 15 articles in leading media on the causes, specific forms, dynamics, consequences and policy responses of informal economic activities in EU candidate countries. The books combine a balanced academic and applied policy approach, presenting challenges for further research and policy recommendations.
- *Information Dissemination*: CSD is Google's prime Bulgarian site on informal economy. The Economic Program disseminated more than 1000 copies of its books and publications on the subject to domestic and international libraries and organizations. It also supports a resource thematic page on the Bulgaria Development Gateway (<http://www.bulgaria-gateway.org>).

### *Corporate Governance*

- *Regional Outreach*: CSD was commissioned by the World Bank and developed a corporate governance community knowledge-sharing tool for NGOs in Europe and Central Asia countries. It also piloted the first two corporate governance newsletters to initiate the network's work.

- *Awareness Raising:* Partnering with *Coalition 2000* grantee Integra, in 2003 CSD took part in promoting ethical standards and self-regulation among SMEs to curb supply side corruption pressures. Giving practical examples of accomplished high standards of business integrity to SMEs was the first step in a coalition building process to promote strong self-governance principles.

### *Horizontal Accountability and Enterprise*

- *Horizontal Accountability:* In 2003 CSD started an initiative to assist improvement in local administrative governance in Sofia in the area of licensing, registration and permit regimes by establishing horizontal accountability and lowering barriers to business. This would require that all 24 Sofia districts conform to common principles of administrative regulation and business friendly practices.
- *Advocating Change:* Together with partners from *Coalition 2000* and other NGOs CSD contributed to the introduction of transparency and accountability in the work of the Sofia Municipal Council by proposing changes to its new statutes.

## **I. Informal Economy**

In the wake of transition in Eastern Europe informality was the only way to operate a private business in post-communist countries. And for the first decade many economists considered the benefits of informal economy to outweigh the losses. With the establishment of market institutions and the approaching EU accession informal economies started pulling back social and economic change in Eastern Europe and countries took appropriate actions to downsize it – both through administrative and business environment improvement measures.

Three years ago CSD opened up the debate on informal economy in Bulgaria, developing a network of experts and holding two high-profile international conferences - raising public and the policy makers' awareness of the problem. Informal economy topped the economic policy agenda in 2003. Ministry of Labor and Social Policy,

Ministry of Finance and Ministry of Economy proposed their separate sets of measures for reducing the informal economy in the country.

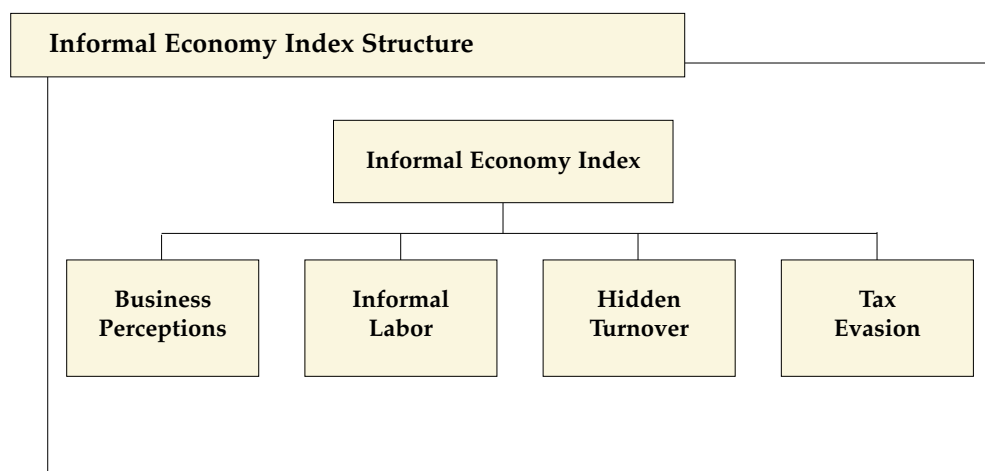
### **1. Watchdog**

Informality is an integral and dynamic part of the economy – representing the disparity between formal socio-economic rules and more dynamic informal interactions that underlie them. Informal economy figures are always disputed because of the hidden nature of the phenomenon they are trying to capture. But in public policy design on informal economy what matters more than absolute figures is dynamics – do undertaken measures result in an effective and sustainable downsizing of the informal economy in the country.

To capture and assess policy impact in 2003 CSD developed and tested a pilot

informal economy dynamics index. The index was produced in cooperation with Vitoshka Research Agency (CSD's sociological unit) within the framework of *Coalition 2000*. It is based on sociological surveys among businesses and assumes values between 1 (no informal economic activity) and 10 (very high informal economic activity). The index not only records overall informal economy dynamics but also tracks the different forms of informality. The index has proven a powerful tool for focusing public attention and tracing policy effectiveness.

For 2003 the index registered considerable decrease in the level of informal economy, which resulted primarily from administratively enforced mandatory registration of contracts. However, its components unveiled that after the initial general business compliance to introduced administrative measures towards year-end businesses are increasingly unwilling to support government's policy in this area. Hidden employment contracts, undocumented sales and tax evasion index components rebounded from mid-year lows.



**Informal Economy Index Dynamics 2002 – 2003**

	Dec. 2002	March 2003	Nov. 2003
Business Perceptions	4.60	3.96	3.66
Informal Work	3.98	2.79	2.76
Hidden Turnover	3.65	2.66	2.72
Tax Evasion	3.15	2.24	2.28
<b>Overall Index</b>	<b>3.82</b>	<b>2.91</b>	<b>2.86</b>
<i>Source: Vitoshka Research Agency</i>			

## 2. Knowledge Sharing

### Publications

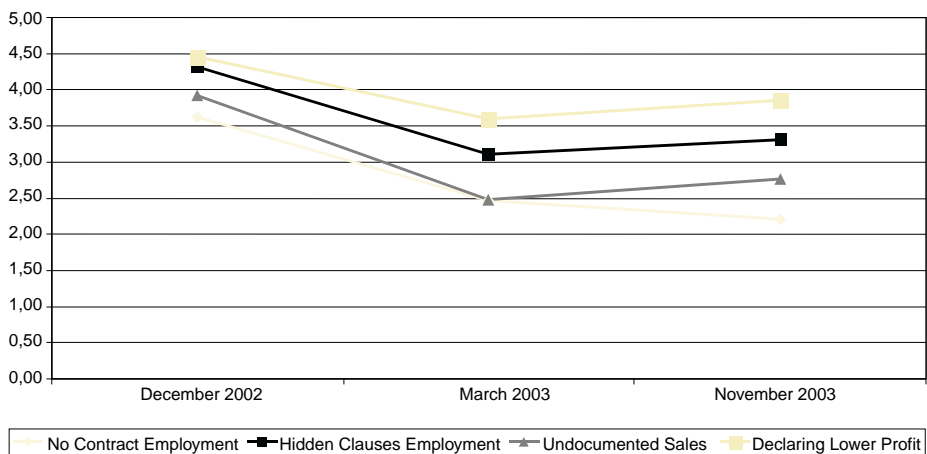
In 2003 CSD published two conference books – one in Bulgarian and one in English – on the causes, specific forms, dynamics, consequences and policy responses of informal economic activities in EU candidate countries. The books combine a balanced academic and applied policy approach, presenting specific challenges for further research and particular policy recommendations. More than 1000 copies of the two books were distributed to local and international libraries and interested organizations.

The book *Informal Economy in the EU Accession Countries: Size, Scope, Trends and Challenges in the Process of EU Enlargement* contains contributions from more than 20 scholars. It reveals that the principal causes of informal economy in accession countries and EU member-states are the same but they have disproportionately

larger negative impact on the former, which is further exacerbated by the institutional transition. Informal economies in some EU member countries are of comparable size to those in accession countries although the forms of informality differ. The book concludes that informality tends to spill over national borders, which makes the problem a matter of European concern and collective efforts should be applied to find appropriate solutions. Introducing stricter EU regulations in the softer administrative enforcement environment in the accession countries might have an adverse effect and push more enterprises in the informal economy.

The Bulgarian version of the book contains a separate part dedicated to specific problems in this country – the links of grey economy to contraband, corruption and criminal activities. The considerable size of the informal economy in Bulgaria – moderate estimates put it at a quarter of GDP – ensures free resources for corruption payments

**Informal Economy Index Components' Dynamic**



Source: Vitosha Research Agency, Coalition 2000



and is a hide-out place for criminal economic activities in times of more active law enforcement measures. This has largely been the case in Italy in the early nineties when strong anti-mafia actions have led to an increase in informal economic activities.

In 2003 CSD published more than 15 articles in leading Bulgarian newspapers on informal economy keeping the public and the professional community aware of the latest developments in this area in the country.

### *On the Web*

CSD is Google's prime Bulgarian site on informal economy – search words “informal economy”, “grey economy”, “criminal economy”, etc. The Economic Program has created a special informal economy page on the newly re-designed CSD web-site and supports a separate resource page on the Bulgaria Development Gateway on the issues of informal economy.

### *Events*

The Economic Program held two thematic round-tables on the informal economy during the year. These events targeted specific issues important to this country. In search for viable solutions they gathered all stakeholders to the particular problem ensuring alternative view points and plurality of opinion.

The first round table “Grey Economy in Bulgaria – Recent Trends” organized on July 23, focused on the informal economy in the IT sector. Representatives of the Applied Research and Communications Fund (leadng Bulga-



*Mr. Ruslan Stefanov, Project Coordinator, Center for the Study of Democracy (left) and Dr. Boyan Belev, Senior Fellow, Center for the Study of Democracy at the Grey Economy in Bulgaria – Recent Trends Round Table, July 23, 2003*



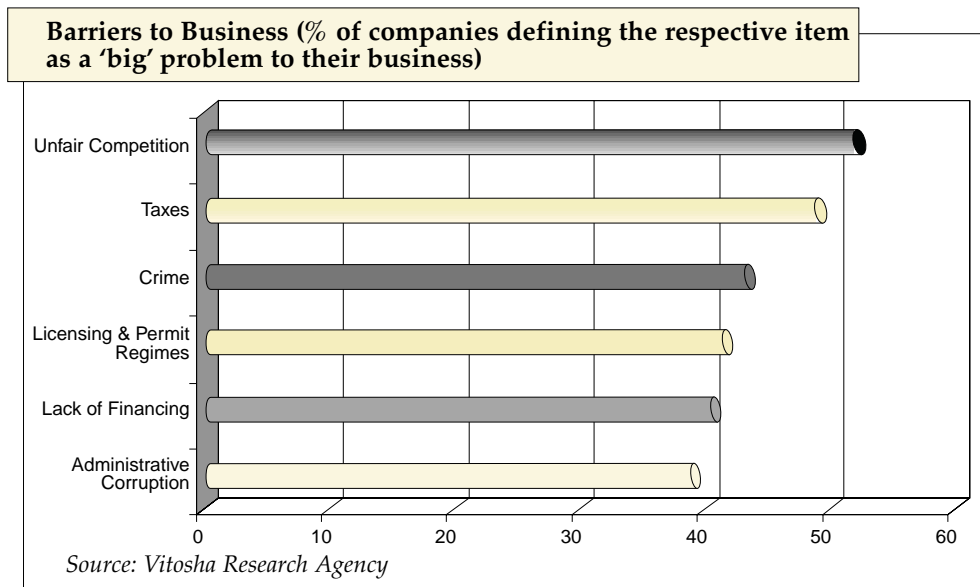
rian IT NGO), BAIT (the Bulgarian IT companies' association), BASSCOM (the industry association of Bulgarian software development companies), Bulgarian International Business Association (BIBA), the Ministry of Economy, the General Tax Directorate, the Intellectual Property Department at the National Service for Combating Organized Crime and others discussed the latest trends in informality in the industry. The informal economy in the IT sector is about the average percent in the country, i.e. 25%. Hidden clause employment and its mirror hidden turnover are the dominant forms of informality in the sector with some salaries being three to four times higher than officially disclosed. While contraband channels seem to be less of a factor, software piracy and new forms of informality (e.g. money laundering through Internet) appear. The experts concluded that a well-functioning public-private partnership including international industry suppliers, local businesses, public and law enforcement administration and NGOs is instrumental for achieving a sustainable reduction in the share of informality in

the sector. Problems of particular attention should be: (i) improving public procurement transparency and lowering corrupt transactions, (ii) upgrading tax service and control and (iii) reducing administrative compliance costs in the official economy.

The second round table "Competitive Environment and the Informal Economy in Bulgaria" organized on December 18 dealt with the worst economic consequence of the informal economy – unfair competition – the additional non-market pressure it exerts on official businesses. Vitosha Research Agency surveys show that by far unfair competition is defined by entrepreneurs as the single most detrimental factor to their business, which bends the rules of competition and creates huge incentives for going informal. The three biggest industrial associations in the country BIBA, Bulgarian Chamber of Commerce and Industry and Bulgarian Industrial Association, which represent jointly more than 70% of the private sector in the country, shared with public administration, NGO and donor organizations' representatives outlined their



*From left: Mr. Georgi Tchernev, Vice President, Bulgarian Chamber of Commerce and Industry, Mr. Petkan Iliev, Senior Fellow, Center for the Study of Democracy, Ms. Andriana Sukova-Tosheva, Executive Director, Bulgarian International Business Association at the Round Table Competitive Environment and the Informal Economy in Bulgaria, December 18, 2003*



points of view on informality and unfair competition and proposed measures for dealing with them. Smuggling, contraband and fraud at import, inefficient customs, public procurement and unclear legislation are the main sources of gray economic activity. While companies have already managed to reduce internal company economic crime and fraud, external, organized crime and physical threats still remain a problem and discourage companies' investment and innovation activity. The round table concluded that public policy should specifically target a stricter enforcement of existing customs and competition regulations and improvement in the business environment and public service for officially operating businesses.

### 3. Networking

CSD continued to expand and strengthen its networking to local and international experts and stakeholders on informal economy placing a focus on community building and knowledge sharing. Good knowledge of the inter-

nal expert community and contribution from distinguished international experts in the area formed the basis for achieving sustainable policy impact in the country.

In 2003 Economic Program experts were invited to present Bulgaria's experience and achievements in countering informal economic activity to the Italian presidency of the EU. They participated at two international events on undeclared labor in Europe: (i) a joint DG Research and DG Employment and Social Affairs Seminar "Informal/Undeclared Work: Research on its Changing Nature and Policy Strategies in an Enlarged Europe" on May 21 in Brussels and (ii) "European Conference on Policies for Employment and Against Undeclared Work: From Segmentation to Integration of Labour Markets" on December 12-13 in Catania, Italy.

## II. Corporate Governance and Self-Regulation

Private sector business integrity is of high importance not only to the

separate company but for the overall economic and social development of the country. Private companies produce currently more than 70% of GDP and few of them are of size, which might inflict considerable damage on the economy if mismanaged.

### 1. Pioneer Awareness Raising and Coalition Building

In 2003 CSD shifted its corporate governance work towards company self-regulation and internal ethics rule establishment. For the first time in this country CSD presented figures on corruption in the private sector – its magnitude and its specific forms at a round table in June. In December BIBA invited Economic Program experts to present their findings at an international conference “Countering Corruption – a Factor for Improving the Business Climate in Bulgaria”, which highlighted that businesses are already aware of the size and severity of the problem and are taking responsive action. Active companies are primarily foreign multinationals, which transfer their standard

internal regulations and ethical rules to their local subsidiaries. Home-grown SMEs remain overwhelmingly unaware of existing conflicts of interest and methods of dealing with them.

In cooperation with Integra – Bulgaria (a *Coalition 2000* grantee) CSD presented to SMEs and the public a model “Code of Ethics and Social Audit”. The publication is intended to aid SMEs in uncovering conflicts of interest and handling them professionally, avoiding conflicts with employees and building their own internal system for integrity. Preventive measures put a long-term downward pressure on supply of corruption in the economy. Reducing corrupt practices in the private sector levels the playing field and improves the competitive environment thus raising economic efficiency.

### 2. Outreach

CSD continued its work in the framework of the Corporate Governance Initiative on promoting the values of good corporate governance



*From left: Mr. Ruslan Stefanov, Project Coordinator, CSD Economic Program; Mr. Todor Yalamov, Corporate Governance Group Coordinator, Coalition 2000 and Mr. Ludmil Mandichev, Integra Bulgaria at the Round Table Anti-Corruption in the Private Sector: Institutional Reform and Company Behavior, June 18, 2003*

and strengthening and servicing the corporate governance community in the country and the region. In 2003 CSD initiated a working group under *Coalition 2000*, which prepared an updated report on corporate governance in Bulgaria. The report is expected in the beginning of 2004.

Recognizing the extensive experience and resources CSD and the Corporate Governance Initiative have acquired during their work in 2003 the World Bank commissioned the economic program team to develop a community knowledge sharing portal for the ECA region. The portal was successfully launched and CSD prepared the first two pilot newsletters for its clients. It is intended to become a clearing house for information and best practices sharing among expert communities in the region.

### **III. Horizontal Accountability and Enterprise**

Contemporary economic development is increasingly local, cluster and urban in character. Therefore local administrative governance is imperative to the development of viable national economies. In big cities where governance is shared among many district administrations horizontal accountability in administering business regulations is key to creating a welcome entrepreneurial and business climate.

In Bulgaria the economy of the capital city of Sofia accounts for more than 1/3

of the country's GDP and hosts about 40% of SMEs. It has one central and 24 district administrations, which often enforce business administrative rules in substantially different ways. This imposes considerable costs on businesses in Sofia and hampers the capital city's development. In the end of 2003 CSD started work on introducing horizontal accountability and common principles of administrative governance in the 24 districts of Sofia through institutional and legislative changes. It aims at lowering business transaction costs and improving the overall business environment in the city.

CSD established a working group on local administrative governance, which comprises of representatives from the Sofia Municipality, the Municipal Council, the Bulgarian Chamber of Commerce and Industry and NGOs to prepare a report on the administration of licensing, registration and permit regimes in Sofia and propose legislative and institutional improvements to the City Council. The group has identified two sets of regimes that impose the highest compliance costs on businesses and are sources of corruption – (1) regulating commercial activities and (2) regulating construction and architecture. Members of the group proposed changes to the City Council's statutes, establishing the principles of public-private partnership and transparency in the Council's work. The proposed texts have been largely incorporated by the Councilors in the new statutes.

# Vitosha Research / Sociological Program

## 2003 Highlights

*Vitosha Research* carried out about 60 social, economic, marketing, media and public opinion projects in 2003. Quantitative and qualitative surveys were conducted, including over 20,000 face-to-face and telephone interviews, about 120 in-depth interviews and 7 focus group discussions. The collected information was summarized in over 30 analytical reports, policy papers and newspaper publications.

- In 2003 Vitosha Research focused its activities on four thematic centers: corruption and “hidden” economy; social assessment projects; business and market research; international comparative surveys.
- Vitosha Research conducted five Eurobarometer surveys in which about 5000 respondents gave their opinion attitudes, expectations, and concerns about the process of Bulgaria’s EU integration. This international project is funded by the European Commission and coordinated by Gallup Hungary. Comparative data and summarized results of Eurobarometer surveys completed in Bulgaria and the other candidate countries have been published regularly by the European Commission.
- Corruption surveys were a substantial part of Vitosha Research activities in 2003. In cooperation with *Coalition 2000*, Vitosha Research has continued the implementation of Corruption Monitoring System. Regular surveys among general public and business sector were carried out. A special attention was paid to the problems of corruption among Bulgarian magistrates (judges, investigators, prosecutors). Corruption will remain one of the important assignments for Vitosha Research in 2004.
- IT development was tracked on a regular basis in the quarterly VR omnibus surveys. The information obtained in these quantitative surveys was an important part of the overall assessment of information technologies development in Bulgaria.
- In 2003 Vitosha Research made its first attempt to measure drug use and abuse in Bulgaria. Two national representative surveys were conducted. The information obtained was included in the CSD publication “The Drug Market in Bulgaria”.

## I. Social and Economic Research

Social and economic surveys were a significant part of Vitosha Research work in 2003. Some of the main thematic issues of the projects implemented included: study of corporate social and environmental practices of Bulgarian enterprises and firms; assessment of development of electronic commerce zones in Bulgaria; study of regional innovation strategies; business sector surveys on the tax practices, bank services, business information needs, credit issues, etc. Social surveys were focused on the rural development, the role of ombudsman institution in Bulgaria, needs and problems of the Roma population in Bulgaria. Several social assessment studies were conducted by Vitosha Research for The World Bank, United Nations Development Program, UN Food and Agriculture Organization (FAO), SOS Kinderdorf Bulgaria, Innovation Relay Center - Bulgaria (IRC-Bulgaria) to name but a few.

### 1. Survey on Rural Development Needs

Upon request of the World Bank, a FAO mission in cooperation with the Ministry of Agriculture and Forestry took the first step in the elaboration of a project in the rural sector in Bulgaria. The project aims to explore the variety of socio-economic and geographical conditions in rural areas in Bulgaria. And to help identify obstacles to development in different zones, and for different groups of population. This country-wide survey was based on interviews in a number of municipalities and villages. A total of 84 semi-structured interviews with municipal and village mayors and about 600 face-to-face interviews with entrepreneurs, cooperative managers and households were carried out. The main topics included in the survey are:

- Composition and activities of the household;
- Rural infrastructures : water supply, roads, etc;
- Land tenure and patterns;
- Irrigation infrastructure;
- Marketing;
- Credit;
- Farms and their difficulties: organisation, access to inputs; credit, marketing, technical services;
- Access to social support services;
- Constraints, needs and priorities.

### 2. Survey on Rural Regions in Bulgaria

FAO, in the context of its cooperation with the European Bank for Reconstruction and Development (EBRD) commissioned Vitosha Research to perform a household survey in three different regions of Bulgaria. The main objective of the survey was to assist a Bulgarian micro-lending bank in identifying potential clients in rural areas of Bulgaria and to assess the effective demand for financial services in rural Bulgaria. The survey was conducted in 5 administrative regions of the country (Veliko Tarnovo, Dobrich, Shoumen, Plovdiv and Haskovo). Based upon the results of the survey among agricultural producers, cooperatives and firms, some of the following conclusions were made:

- All agricultural farmers, irrespectively of their type of activities, farming systems, size of operations, or any other relevant discriminatory criteria, are interested in loan

and a large part of them have borrowed money in the last year (66%) and/or in the last few years.

- Typical potential bank client are all cooperatives, large companies, and large and medium size individual farmers with sustainable income.
- The three main improvements in the loan products cited by the respondents are less collateral requirement, especially for short-term credits and/or loans for working capital; lower interest rates, especially for working capital loans; and long-term loans (more than 15 years) with grace period, especially for perennials and big infrastructure investments.

### **3. Survey of Corporate Social and Environmental Practices**

This project, commissioned by the World Bank, included a quantitative survey among 150 private and state companies. The survey method employed was structured face-to-face interview. The owners, managers and chief executive officers of the companies/firms were the basic target group of respondents for the quantitative survey. Information obtained covered the following main topics: company' values and principles, codes of behavior, transparency of the company activities and the practice of sharing information beyond audience required by law, labor and staff development, firms practices regarding social issues etc.

### **4. Ombudsman Institution in Bulgaria**

After introducing the Ombudsman Institution in Bulgaria, the Law Program of the Center for the Study of Democracy and Vitosha Research have made the next step towards endorse-

ment of respecting the rights of the citizens violated by the state or by government officials. The project was focused on the attitudes towards Ombudsman-type institutions of a special group of Bulgarian population – vulnerable people. Focus group discussion in town of Veliko Tarnovo was carried out with representatives of NGO sector and vulnerable people (women, disabled persons, ethnic groups) in order to identify the specific problems these people face and on this base, the role of the Ombudsman institution to be outlined. During the discussion information on the following topics was obtained: main problems people meet in their communication with state and government officials; general assessment of administration' work, level of public awareness about the Ombudsman-type institution in general – it's functions, influence, interaction with other public authorities, etc.

### **5. Assessment of the Activity and Image of the World Bank in Bulgaria**

The World Bank Country Office in Bulgaria initiated this opinion research project to help drafting messages aimed to build support for the Bank's work in the country and the economic reform process. The dissemination of these messages will be part of a communication strategy targeted to "opinion makers," segments of the population that have the potential of influencing public opinion and directing the political process (i.e. professionals, academia, university students, business community, non-governmental organizations, etc.). There was a need to test messages targeted at general public that would increase their interest and understanding of the Bank's role in the country. The more specific objectives of the research were:

- Ascertain how to build credibility for the Bank's mission in Bulgaria
- Probe the public on key concerns in areas related to the Bank's work
- Get a sense of perceptions about the relevance of the Bank's program of assistance in Bulgaria
- Analyze how UNDP has positioned itself strategically to add value in response to national needs and changes in the national development context, with particular attention to entry points and strategy selected by UNDP to leverage Bulgaria's reform process in the areas of job creation, pro-poor policies and accountable local governance; the key current strategies of CCF-2; and the cooperation with different groups of development partners.

Three focus group discussions were conducted for the purposes of the survey: two with citizens in Sofia and Pazardjik, respectively and one group composed of experts in the social and economic spheres.

## 6. Assessment of UNDP Development Results in Bulgaria

The survey was part of a series of country evaluations, called Assessment of Development Results (ADR). Its main purpose was to evaluate the contribution of the United Nations Development Programme (UNDP) to Bulgaria's national development within the frames of the program's major spheres of activity. The purpose of the evaluation was also to review the experience of UNDP in Bulgaria; draw lessons learned and provide recommendations for the future. The survey focused on the limitations and achievements of national development, as well as on the strategic positions and results of UNDP activity.

The overall objectives of the Assessments of Development Results were to:

- Provide an general assessment of the results achieved through UNDP support and in partnership with other key development actors during 1997-2005 with particular in-depth assessment within poverty (in particular poverty reduction strategies and their effectiveness in contributing to poverty alleviation) and local good governance.

- Based on the analysis of achievements and positioning above, to present key findings, draw key lessons and provide clear and forward-looking recommendations in order to suggest effective and realistic strategies by UNDP and partners towards intended results.

The evaluation of UNDP's contribution to the national development of Bulgaria was built upon three research methods: desk research; focus group discussions; in-depth interviews.

## II. Corruption surveys

### 1. Corruption Monitoring System of *Coalition 2000*

The extensive research of the corruption in Bulgaria was part of Vitosha Research work in 2003. Information obtained with the regular surveys was baseline for the Corruption Monitoring System of *Coalition 2000*. By using qualitative and quantitative research methods, different target groups were studied. A total of 8 quantitative surveys were carried out in 2003 – four of general public, three of the business sector and one among Bulgarian magistrates. Dynamics of the level of corruption in the country was estimated and corruption related attitudes were analyzed.

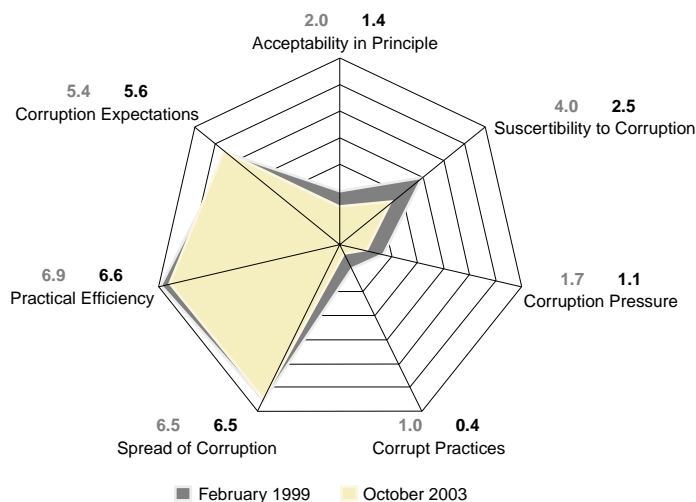


### Spread of Corruption Among Different Groups of Magistrates (%)

<i>Spread of corruption among: (Relative share of answers "Nearly all or most are involved")</i>			
	Judges	Prosecutors	Investigators
<b>1. Judges</b>	2.8	17.4	19.0
<b>2. Prosecutors</b>	11.9	7.9	10.3
<b>3. Investigators</b>	20.8	28.2	4.7
<b>Total</b>	<b>11.2</b>	<b>18.3</b>	<b>11.9</b>

*Source: Vitosha Research*

### Change of Corruption Indexes (1999 – 2003, Population Surveys)



*Source: Vitosha Research*

## 2. The Role of Informal Networks in Socio-Economic and Political Life in Bulgaria

The study is part of an international project including Bulgaria, the Czech Republic, Slovakia, and Slovenia, administered by the Norwegian Institute for Urban and Regional Research.

The project is intended to examine the obstacles to the implementation of the anti-corruption conditions that EU applicant countries are expected to meet.

The purpose of the survey is to determine the role of informal networks in politics, the economy, the judicial system, and the public sector in Bulgaria; respectively, their positive and negative aspects in terms of the establishment of the principles of rule of law, transparency in central and local government, freedom of speech, citizen participation, and the building up of a working market economy in Bulgaria.

The research method includes 90 in-depth interviews with representatives of institutions with key importance to the country's democratization and modernization, including institutions responsible for the adoption and implementation of the anti-corruption measures related to Bulgaria's accession to the European Union. More specifically, the survey covers: political parties, parliamentary groups, ministries, municipal councilors, media, Bulgarian and international NGOs, institutions awarding public procurement contracts, Bulgarian and international companies, structures of the European Union and the Council of Europe.

The next step of this project consists of semi-structured round table discussions and national survey of elites in each of the surveyed countries.

### **3. Survey of Interior Ministry Officials**

The main goal of the study was to analyze and evaluate the level of knowledge, understanding, and confidence in the anticorruption strategy of the Ministry of the Interior staff members of all departments of the ministry. In order to achieve this objective a survey was conducted among 400 Ministry of Interior officials. The main survey topics were:

- Assessments of the level of corruption;

- General attitudes to the changes in this country and the importance of corruption as a social problem;
- Spread of corruption;
- Major factors conducive to the spread of corruption in Bulgaria;
- Implications of corruption;
- Practical efficiency of corruption;
- Value system and moral preconditions for corruption;
- Corrupt practices;
- Future expectations and anti-corruption measures.

### **III. IT Projects**

#### **1. Assessment of the Development of Information Technologies in Bulgaria**

Vitosha Research has continued to track IT development in Bulgaria during 2003. IT monitoring was based on quarterly VR omnibus surveys among general population and business sector. The quantitative survey was one of the measurement instruments used in the project, which combines "e-economy" metrics with "e-society" indicators. The research was focused on IT penetration and development of information society in Bulgaria. The information obtained made possible the computer and Internet usage and access in Bulgaria to be analyzed. The main observed indicators by Vitosha Research were: computer access, Internet use and structure of the Internet use.

Some of the main survey findings are:

- The 2003 marks a significant increase of Internet users in general.

- The overall share of people using Internet is still rather small, but the increasing number over the years is a clear sign for sustainable and more evident penetration of IT in Bulgarian society.
- Survey data indicates the formation of a solid core of more frequent Internet users. The predominant part of “hard” users i.e. those working with it every day, are staying in the net no longer than two hours per day. The largest part consists of users who work with Internet between 20 minutes to one hour.
- More than half (62%) of the respondents who have access to Internet highly appreciate the possibility to chat over the Web.

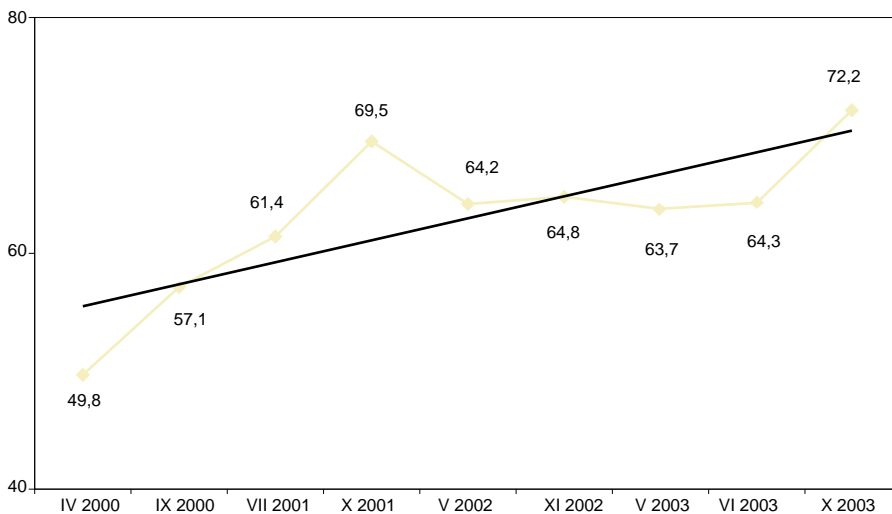
#### IV. Public Opinion, Market and Media Research

##### 1. Public Opinion Surveys

Sixteen public opinion research projects were implemented in year 2003. Different topics were covered. Among them were:

- General public opinion on European Union and accession process of CEE countries;
- Drug use in Bulgaria;
- Perception of Japan among Bulgarian Elites;
- Tax issues, etc.

**Share of Internet Users Among People Having Access to Computers (%)**



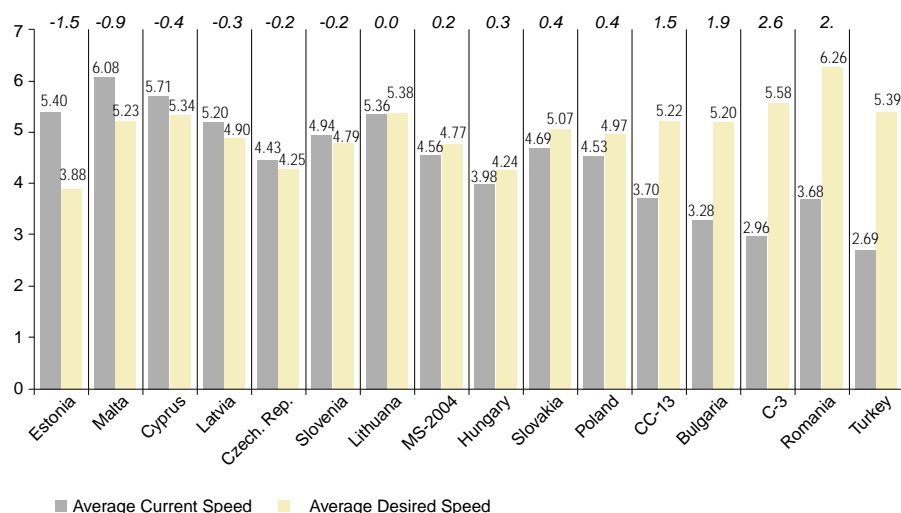
Source: Vitosha Research Quarterly Omnibus

## Eurobarometer

Vitoshka Research, jointly with other research agencies from Central and Eastern Europe, won a European Commission grant competition and started the implementation of an international survey entitled Eurobarometer coordinated by *The Gallup Organization-Hungary*. It is carried out in the 10 acceding countries and the 3 candidate countries for EU membership. The first poll was conducted in the month of January 2000. Since then Vitoshka Research has implemented 10 surveys, commissioned by The Gallup Organization-Hungary. During the last year Vitoshka Research carried out 5 Eurobarometer surveys.

According to the fourth survey wave results, perceived integration speed into the EU in 2003 is slower than what people reported half a year ago. At the same time, among the countries that are set to join the EU in May of 2004, six countries evaluated their accession process to be faster than the speed they desire. In three countries, namely Hungary, Slovakia and Poland (representing almost three quarters of the population of the new member states), citizens tend to desire quicker integration into the EU. The countries which are not included in the current round of enlargement would like a much faster pace in the accession process.

### The "Euro-Dynamometer" Accession Process Perceived Current Speed, Desired Speed



Source: *Candidate Countries Eurobarometer 2003.4, Public Opinion in the Acceding and Candidate Countries, First Results, December 2003, European Commission*  
 Website: [http://europa.eu.int/comm/public\\_opinion](http://europa.eu.int/comm/public_opinion)

CC-13 - Candidate countries as a whole

CC-3 - the group of countries that will remain candidates after the 2004 enlargement as well: Bulgaria, Romania, and Turkey.

MS-2004 - countries that are to join the EU in May, 2004.

### *Perception of the Bulgarian elite of Japan*

In 2003, Vitosha Research conducted a survey among different elite groups, in order to gauge their awareness and perception of Japan, its people, policy, economy, and culture. The project was commissioned by The Embassy of Japan in Bulgaria. Some of the most interesting conclusions based on the survey data could be summarized as follows:

- All of the respondents demonstrated a favorable disposition to Japan.
- Nearly all of the respondents associated the fascination of Japan with the development of technologies in all areas of modern life and with economic prosperity.
- The Japanese themselves were primarily perceived as people committed to their work.
- Japan equally proved to be an extremely attractive holiday destina-

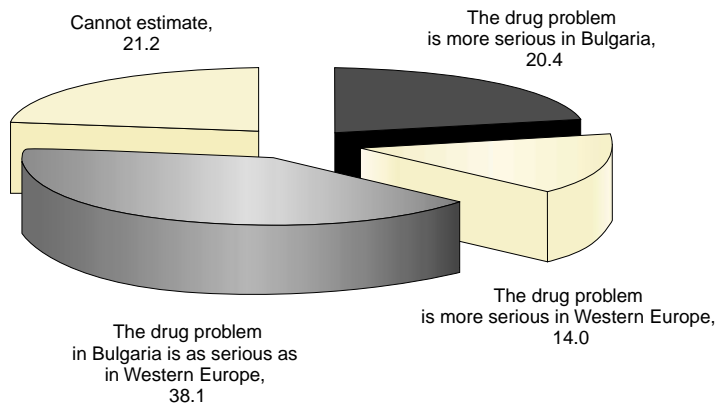
tion. Nearly all of the respondents who took the survey shared that opinion.

### *Drug Use in Bulgaria*

In 2003 Vitosha Research conducted two national representative studies on drug market, drug use and abuse in Bulgaria. The empirical results from the surveys showed that drug users in Bulgaria could be categorized according types of drugs they use. Four types of drug usage were identified:

- Soft drugs usage (cannabis, marijuana, hashish, etc.);
- Synthetic drugs usage (amphetamines);
- Heroin usage;
- Psychoactive substances – from cocaine to LSD and hallucinogenic mushrooms.

### **In your opinion, how serious is the drug problem in Bulgaria compared to Western Europe? (%)**



Source: Vitosha Research

## 2. Marketing and Media Surveys

Vitosha Research conducted thirteen marketing research projects in year 2001 (twelve quantitative and one qualitative research). The surveys covered mainly the following marketing areas:

- Alcohol and spirits consumption;
- Nectar consumption;
- Petrol-station chains (Lukoil, Shell, OMV);
- Bank and financial services;
- Detergents;
- Real estates;
- Phone services;
- Insurance market;
- Cappuccino coffee and hot chocolate consumption, etc.
- Assessment of the Activity and Image of the World Bank in Bulgaria, March 2003
- The Hidden Economy in Bulgaria, March 2003
- Awareness and Attitudes towards SOS Kinderdorf Bulgaria, May 2003
- Study of Real Estate Market in Bulgaria, June 2003
- FAO survey on the Rural Regions in Bulgaria, August 2003
- Perception of Japan among Bulgarian University Graduates, November 2003
- Corruption Attitudes and Practices among Ministry of the Interior Staff, November-December, 2003
- Corruption Indexes of Coalition 2000 (a total of 10 reports for 2003 – four on business and population surveys each, one on a survey of magistrates and one on the public administration).

Five media surveys were implemented by Vitosha Research – four quantitative and one qualitative survey. Among them were test of music clips, opinion and assessments of different radio and TV stations, etc.

## V. Publications and Analytic Reports

Vitosha Research survey findings have been widely disseminated in the press. Over 30 analytical reports were prepared by VR experts. Some of most important reports are the following:

- Bulgaria's Country Report for ADR 1997-2002, February 2003
- Public Attitudes towards Ombudsman-type Institutions in Bulgaria, March 2003

## European Program

For the past few years the issues of security and justice have been increasingly occupying the attention of governments and the public in the Euro-Atlantic region. They have also become among the key problems to be tackled for a successful enlargement of the EU and NATO. For a second year, the justice and home affairs (JHA) agenda has also been the focus of CSD's European Program.

### I. Enhancing Integrity and Professionalism in the Security Sector

For a second year now, CSD has been implementing a program which introduced the first long-term training project aimed to enhance the capacity of the law enforcement agencies in Bulgaria to counteract corruption.

Specifically, CSD provided a critical number of senior officers at the Ministry of Interior and its agencies and the Ministry of Defense and its agencies with the skills to develop early responses to newly emerging security threats and to assist the design and implementation of anti-organized crime and anti-corruption policies. No such program had existed which inhibited the capacity of specialized agencies to develop adequate responses to the newly emerging threats from crime and corruption.

This program has been implemented under the first public-private partnership in Bulgaria in the field of countering corruption in the security forces between the Center for the Study of Democracy and the Defense and Staff College (the Military Academy) and the Academy of the Ministry of Interior.



*On October 16, 2003 Minister of Defense Nikolai Svinarov (left) and CSD Chairman Dr. Ognian Shentov signed a Memorandum of Understanding between the Ministry and the Center*

As a result of CSD's efforts, the issue of corruption within the security forces and the appropriate counteracting measures have become part of the public debate in Bulgaria and the ministries of defense and interior have committed to working with CSD on a specific anti-corruption program. The graduates from the Command and Staff Faculty of the Defense and Staff College (the Military Academy) – the future generals of the Bulgarian army - have been among the key beneficiaries of the program. One of the strongest points of the program is the combination of the rule of law aspects of anti-corruption with the emerging security threats – organized crime, smuggling, etc. The program is producing a sustainable effect by training the trainers of the armed forces colleges on anti-corruption and soft security issues. The training of trainers was backed up by an anti-corruption instructional manual which will be the basis of future mainstreaming of this topic into the curricula

of the educational institutions of the security sector. The Command and Staff Faculty members have benefited also from a transfer of experience with Serb counterparts in November on the issues of governance in the context of participation in NATO's Partnership for Peace program.

As in 2002, this program was implemented in cooperation with the government of Norway. It has been complemented by a number of visits which have facilitated the exchange of policy expertise between the relevant Bulgarian and Norwegian institutions. The public-private format of CSD's program was highlighted during the visit of Mr. Jorn Holme, State Secretary of the Ministry of Justice and the Police of Norway. The discussion focused on access to information, including to court decisions and administrative documents, and the complementarity between legislative measures and the role of the media and NGOs.



*From left to right: Mr. Rolf Baltersen, Ambassador of Norway in Bulgaria, Mr. Jorn Holme, State Secretary, Ministry of Justice and the Police of Norway and Dr. Ognian Shentov, CSD Chairman*



Facilitating the exchange of expertise is also crucial in the context of Southeast Europe, particularly as the countries have achieved varying degrees of progress in the process of Euro-Atlantic integration. To this end, CSD, in cooperation with the Bulgarian ministries of defense and foreign affairs and NATO, contributed towards the process of Serbia's join the Partnership for Peace program (PfP). The Euro-Atlantic Integration in Southeast Europe: the Role of NATO and the Partnership for Peace in Promoting Reform in the Defense and Security Sector seminar on November 24-25, 2003 brought together representatives of the state administration, the Parliament and the NGO sector from Serbia and Montenegro with their colleagues from Bulgaria as well as with NATO policy planners. Some of the key issues on which the Serb counterparts benefited from the Bulgarian experience included the procedures for joining PfP, legal and military, as well as planning aspects,

budget transparency. The meeting was a prime example of the potential for regional cooperation in SEE as regards the future of NATO.

*CSD efforts to promote defense and security sector reform in Serbia and Montenegro are commendable indeed and demonstrate your continued commitment to South Eastern Europe's full integration into Europe.*

Lord Robertson, NATO Secretary  
General

21 November 2003



*From left to right: Ambassador Emil Vulev, Head, Mission of Bulgaria to NATO, Ambassador Todor Tchourov, Director, NATO and International Security Directorate, Ministry of Foreign Affairs, Mr. George Katsiridakis, Head of Section, Defense Policy and Planning Division, NATO and Ambassador Boyko Noev, Director of CSD European Program*

## II. The Future of Security in Southeast Europe

For a few years now – and with potentially increasing intensity – Europe, and in particular its Southeastern part, is being faced by a new set of threats - corruption, drug smuggling and human trafficking, trans-border organized crime, money laundering. One of CSD's main objectives as regards the new, non-traditional risks to security is to facilitate the conceptual rethinking which will inform a more efficient policy process. This is best achieved in a public-private format as the emerging challenges can no longer be addressed in the framework of the security sector alone. The response CSD received in September 2003 from the minister of defense and interior of the SEE states and from NATO to its initiative for rethinking the security agenda in the region indicates that the Center's stake on the potential of public-private partnerships is more than warranted.

The two-day conference, entitled *Shaping A Common Security Agenda For Southeast Europe - New Approaches And Shared Responsibilities*, took place on September 5 and 6 in Sofia, Bulgaria and was attended by policy makers from NATO and other international institutions, the ministers of defense and interior of six SEE states. In his keynote speech NATO Secretary General Lord Robertson affirmed the Alliance's commitment to SEE security and explained that the current reduction of troops reflects improved security situation in the region.

The conference covered some of the key aspects of the future of Southeast European (SEE) security in the context of EU and NATO enlargement. The conference highlighted the need for an adequate doctrine that would make crime a priority issue in the framework of the newly defined regional and European security. Discussions also focused on the need to look for innovative responses to soft security



*From left to right: Dr. Ognian Shentov, CSD Chairman, Dr. Solomon Passy, Minister of Foreign Affairs, Lord George Robertson, Secretary General of NATO and Ambassador Boyko Noev, Director of CSD European Program*

threats, particularly organized crime and corruption. The conference demonstrated the value of public-private partnership in tackling soft-security issues by bringing together professionals from the security sector and private actors, such as non-governmental policy institutes, with policy makers from SEE countries NATO and other international institutions.

*One of the most dangerous forms of corruption, which destabilizes both internal and regional security in SEE, is the symbiosis between organized crime and representatives from the security sector in the Balkan countries.*

*The gravity of the problem calls for bold and radical measures which should upset entrenched interests. Traditional bureaucracies – be they national or international – cannot muster the type of public support needed if these reforms are to be successful.*

*Thus, a new type of public-private partnership is necessary to secure public backing for the measures against organized crime and corruption. This partnership should seek to include civil society and private sector institutions as stakeholders in the process of prevention and enforcement.*

Conference discussion topics

*"...[We] are still deploying a sizable number of troops. And they are now able to focus their efforts in new areas where they can add real value - in tackling persistent regional problems such as border security, organized crime, and dealing with illegal weapons"*

Lord Robertson at the September 5-6, 2003 conference

### III. Facilitating Dialogue on EU and NATO Enlargement

The facilitation of an exchange of views and ideas between policy makers in the EU and NATO members, and their counterparts in Bulgaria is among CSD's main contribution to Bulgaria's EU and NATO aspirations.

CSD has established a very good cooperation with the British Embassy in Sofia, particularly in the JHA area in the context of EU accession. The visit of UK's Minister for Europe, Dr. Denis MacShane in October 2003 was a opportunity for a round table discussion on the latest developments in this field. In a meeting with CSD senior staff Minister MacShane discussed the anti-corruption reforms in Bulgaria. He was introduced to the work of the anti-corruption initiative *Coalition 2000* and, particularly, to the latest findings of the Expert Group on Corruption and Contraband related to the illegal trafficking channels. Participants in the discussion agreed that further efforts are needed to combat corruption, money-laundering and organized crime on a national and European level.



On October 9, 2003 UK Minister for Europe Denis MacShane met CSD senior staff

CSD also puts a significant effort into bringing EU and NATO member states policy makers into contact with a wider Bulgarian community committed to integration. The joint lectures with the British Embassy is one of formats used by CSD targeted at parliamentarians, magistrates, journalists, NGO experts and others.

On **February 6, 2003** the British Embassy to Bulgaria and the Center for the Study of Democracy co-organized a lecture delivered by John Abbott, Director General of the UK National Criminal Intelligence Service (NCIS). NCIS is one of Europe's most respected anti-crime agencies and its threat assessment reports have developed a model methodology for forecasting crime developments. One of issues highlighted at the meeting was the fact that fighting organized crime internationally is extremely difficult because law enforcement is not global in structure and it works within a local jurisdiction. Law enforcements agencies around the world lack common standards and approaches towards international organized crime and they are vulnerable to corruption. In John Abbott's opinion the cooperation between different countries now tends to focus on individual operations while



From left to right: Mr. John Abbott, Director General of NCIS, Mr. Ian Soutar, Ambassador of UK to Bulgaria and Mr. Boyko Todorov, CSD Program Director

the criminal groups are collaborating and if the international community failed to respond adequately to the threats the world will not become a safer place.

Later in February British MP and Parliamentary Under Secretary of State at the Home Office Bob Ainsworth visited Bulgaria and delivered a lecture on the *New Trends and Developments in Fighting Organized Crime*. In his lecture Mr. Ainsworth pointed out that the most serious threats which should be regarded as priorities of the UK government were Class A drugs trafficking (essentially heroin and cocaine), people smuggling and trafficking, fraud, money laundering, possession and use of firearms, high-tech crime and pedophile crime. Mr. Ainsworth's visit was another sign of the active role of the UK in Bulgaria in recent years in providing support and assistance to the authorities responsible for tackling drug trafficking.

As noted by NCIS Director John Abbott international cooperation is key to the effectiveness of anti-organized crime



Home Office Minister Bob Ainsworth speaking at the CSD/British Embassy lecture

efforts. The establishment of Europol, the European Union law enforcement organization that handles criminal intelligence, has been a step in this direction. On June 16, during a visit to CSD Europol Director Jurgen Storbeck underlined the importance of multidisciplinary approach and combined efforts of both member states and applicant countries to build a common European area of justice and security. Mr. Storbeck outlined Europol's immediate tasks: integrating applicant countries' systems into the EU law enforcement, building law enforcement and security outside Europe, including the Balkans, and internal development. He expressed hope that the good cooperation with Bulgarian authorities would continue.



From left to right: Mr. Boyko Kotzev, Deputy Minister of Interior, Mr. Jürgen Storbeck, Europol Director and Mr. Boyko Todorov, CSD Program Director

#### IV. Policy Studies

##### *Assessment of Drug Consumption in Bulgaria*

Drug abuse and smuggling present one of the most potent threats to modern societies. The Center for the Study of Democracy has undertaken a special inquiry into the topic of drug abuse - which was fueled by the drug epidemic of the late 1990s and has grown to beco-

me a real social threat - and the problem of drug dealing, which is a major mechanism for the generation of organized crime in Bulgaria. Answers to the question "What is the number of drug users in Bulgaria?" used to range from "No one can tell" to "More than 100,000". Without disregard to the variety of opinions, CSD tried to establish a common point of departure for the evaluation of drug use in the country. For that purpose a national representative survey of the issues of drug abuse was conducted for the first time in the country. Although there had been quite a number of surveys up to that time, they had focused on demographic groups (e.g. secondary school students in certain large cities or drug addicts that had sought help).

CSD's findings were first presented at a conference on March 14 attended by HRH The Prince of Wales. The event *Public-Private Partnerships in Preventing Drug Abuse and Trafficking* was hosted by CSD and provided a new momentum in the cooperation between Bulgarian private and public institutions and their UK counterparts. The royal visit and keynote speech at the conference was a recognition of CSD efforts to encourage a comprehensive policy approach that marries prevention and enforcement.



Dr. Ognian Shentov, CSD Chairman (left) and HRH The Prince of Wales

In his speech, HRH The Prince of Wales commended the work of Bulgarian Customs and the National Service for Combating Organized Crime for their dedication and efforts in stopping drugs flow through Europe and congratulated the Bulgarian Government for making this a priority area of policy. HRH pointed out that Bulgaria and the UK had to collaborate even more than now against international organized crime to reduce the availability of drugs as well as to combat the growing perception that drug use is acceptable and risk-free.

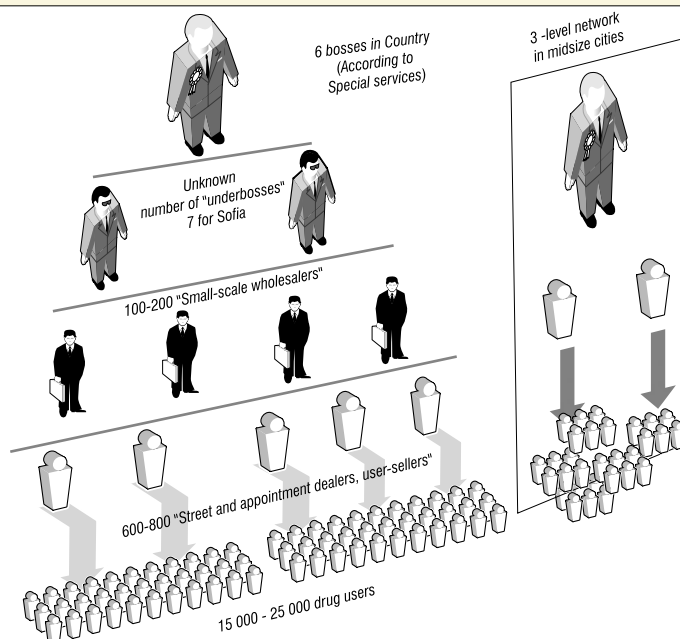
The final CSD report, published in December, combined the analysis of the drug use in Bulgaria with the first publicly presented outline of the smuggling and distribution mechanism set up by organized crime. Presented jointly with the Ministry of Interior on December 11, this report addresses drug



Mr. Tihomir Bezlov, Coordinator of the CSD Expert Group on Assessing Drug Consumption in Bulgaria (left) and Gen. Boyko Borissov, Secretary General of the Ministry of Interior at the presentation of the report on the Bulgarian drug market

supply and demand in Bulgaria with the ambition of mapping a vast information void and identifying the basic mechanisms and stakeholders of the drug market.

### Five-Tier Hierarchy of Drug Distribution in the Capital City as Compared to Three-Tier Hierarchy of a Small Town



Source: *The Drug Market in Bulgaria*, CSD, Sofia, 2004.

The study also brought into the public domain for the names of previously unknown key underground-world figures, describing the methods and organization of their work and the structures of their criminal groups. Some of the main findings of the report include:

The drug market in Bulgaria is fragmented. At the national level there are up to five main bosses under whom there are strict hierarchies of regional and local drug dealers.

Organized crime groups involved in drug dealing are also involved in other activities such as prostitution rings, smuggling of commercial goods, human beings, and arms.

The drug market in Bulgaria is functioning with the help of low or mid-level accomplices in the National Police Service.

#### *Assessment of Small Arms and Light Weapons Export Control*

Illegal international trade in small arms is one of the most serious global humanitarian concerns. A multitude of

conflicts all around the globe increase the pressure on unscrupulous arms dealers to exploit loopholes in export control legislation. Concerns over the marriage of trafficking and corruption at the Bulgarian borders warrants a closer look at the enforcement of export controls in Bulgaria. Having worked on the linkages between smuggling and corruption for three years, CSD applied its experience in knowledge in this area to the issue of small arms and light weapons (SALW) export controls.

As a result, CSD assembled a task force of experts from government and private institutions to evaluate the implementation of SALW export legislation. It was the first similar effort in this area, all the more significant that it was undertaken under the auspices of a non-governmental organization. The policy paper and recommendations, contained in the CSD report, together with its public presentation have increased the public awareness on an issue that had hitherto not been considered publicly. The report and recommendations also provided policy makers with a summarized insight into the workings of the enforcement system and outlined alternative policy options.

# Information Centre on the Council of Europe in Sofia

*The Center for the Study of Democracy has been hosting the Information Centre on the Council of Europe in Sofia since 1993. The Information Centre provides the Bulgarian public and institutions with information on the activities and supports Council activities in priority areas. Below are some of the highlights for the 2003. Additional information is available at [www.cid.bg](http://www.cid.bg)*

## **Releases in 2003**

### **Translations**

- Fundamental Principles on the Status of Non-governmental Organisations in Europe and explanatory memorandum

### **Publications**

- Reprint of The European Convention on Human Rights: Starting points for Teachers.

### **Events**

- 21-22 February - European Parents' Association East-West Dialogue Conference
- 7-10 May - European Commission against Racism and Intolerance visit
- 9 May – Europe's Day celebration
- 10 July - Public presentation of a new Ministry of Interior Manual on the rules and procedures of taking into custody and the conditions in the places of custody
- 15-16 September - Seminar on Subsidiary and Temporary Protection of Refugees in Europe and in Bulgaria
- 26 September - Fourth Coordination Meeting of Academic Refugee Study Initiative in Bulgaria
- 8 October - Public discussion on the forthcoming introduction of the Ombudsman institution in Bulgaria
- 11-13 November – Delegation of the Advisory Committee on the Framework Convention for the Protection of National Minorities visited Bulgaria
- 15 December – Information Centre on the Council of Europe in Sofia celebrated its 10<sup>th</sup> anniversary with a ceremony held in its host organisation – Center for the Study of Democracy

During 2003 ICCE answered approx. 1,000 requests by letters, telephone calls, e-mails, and to the visitors of the library. Seventy percent of all requests were about information on the European Court of Human Rights.



### ***Celebrating the 10<sup>th</sup> Anniversary of the Information Centre***

On December 13, 1993 the Information Centre on the Council of Europe opened in Sofia. To mark this occasion a ceremony was organized at the Centre premises, which was attended by representatives from the Presidency of the Republic of Bulgaria, the Ministry of foreign affairs, other public institutions, diplomats, journalists and NGO leaders and experts.

*“Bulgaria’s membership in the Council of Europe became the basis for its development as an integral part of the European democratic community, in the process of asserting the human rights and essential freedoms into the starting point in the development of the European system of values and in fostering the principles of democratic security. The Information Centre on the Council of Europe in Sofia still has an important role in the transmission of a more comprehensive information to the Bulgarian public about the activities of the Council of Europe and Bulgaria’s specific role for the success of this organisation.”*

President Georgi Purvanov  
greeting to the Information Centre

### ***Walter Schwimmer Stresses the Importance of the Introduction of the Ombudsman Institution in Bulgaria***

The Information Centre jointly with the Center for the Study of Democracy hosted a public discussion on the forthcoming introduction of the Ombudsman Institution in Bulgaria. The Council of Europe Secretary General Walter Schwimmer was the guest of honor at this occasion attended by Dr. Plamen Panayotov, Deputy Prime Minister,

members of parliament, ambassadors, journalists, and NGO representatives. In his speech Mr. Schwimmer outlined that Ombudsmen are today an integral part of the institutional architecture of a modern democracy and welcomed the introduction of this institution in Bulgaria. Furthermore, the Secretary General focused on the very recent Recommendation 1615 (2003) of the Parliamentary Assembly on the Ombudsman Institution and the essential characteristics of the Ombudsman to be ensured at national level in order to provide this institution with operational effect – the first pre-requisite being that all these essential characteristics of the Ombudsmen should be established at constitutional level. Mr. Schwimmer welcomed the work done by the Center for the Study of Democracy in drafting Ombudsman legislation and for promoting and establishing the Ombudsman institution in Bulgaria. He also confirmed the commitment of Council of Europe to further support of the establishment of the ombudsman institution in Bulgaria.

The participation of the Secretary General in this event, which took place in the framework of the 25<sup>th</sup> Council of Europe Justice Ministers’ Conference in Sofia (October, 9-10, 2003), had a significant impact at a particularly crucial juncture in the efforts for the introduction of this independent institution fostering human rights in this country.

### ***The Human Dimension of Security***

Another priority of the Information Centre in 2003 was the linkage between the new security agenda in the post-communist period and the principles and values of human security, defended as a cornerstone of European society and as a priority area in the activities of the Council of Europe. Such a linkage



*Public discussion of the Ombudsman Institution (October 8, 2003, CSD); from left to right: Mr. Walter Schwimmer, Secretary General of the Council of Europe, Mr. Plamen Panayotov, Deputy Prime Minister, and Dr. Maria Yordanova, Director of Law Program, CSD*

was outlined by Dr. Klaus Schumann, Director General of Political Affairs, who participated in the international conference *Shaping a Common Security Agenda for Southeast Europe*, which took place in Sofia on 5 and 6 September. In the presence of NATO Secretary General Lord Robertson, high level EU officials and ministers from SEE countries, Mr. Schumann noted that the One Europe approach is based on the commitment to common agreed norms and standards which are the milestones on the way towards stability and security.



*Mr. Klaus Schumann, Director General of Political Affairs, Council of Europe*

The Information Centre focus on the human dimension of security was reaffirmed by hosting and taking part in two events, related to the necessity to guarantee protection and the essential rights of refugees. The first was a 2-day seminar titled *Subsidiary and Temporary Protection of Refugees in Europe and in Bulgaria – theory and practice* (15-16 September). The seminar was organized by the Council of Europe, the State Agency for Refugees-Twinning Project and the UNHCR- Branch office in Sofia. A week later, the Information Centre hosted the Fourth Coordination Meeting of Academic Refugee Study Initiative in Bulgaria, initiated and supported by the UNHCR-Branch office in Sofia. The main goal of this initiative is to stimulate Bulgarian lectures, students and researchers for more methodical approach in their work in the field of refugee rights.



*From left to right: Mr. Rumen Galev, Secretary General, State Agency for Refugees, Dr. Luise Druke, UNHCR Representative, Mr. Denis Bribosia, Asylum and Refugees Unit of the Council of Europe*

The interface between security concerns and the European standards in defending human rights was the public presentation of a new instruction of Ministry of Interior on the rules and procedures of taking into custody and the conditions in the places of custody,

hosted by the Information Centre. Mr. Boyko Kotzev, Deputy Minister of the Interior, experts from the Ministry and representatives from leading NGOs active in protection of human rights, discussed the merits of the new instruction in the presence of the media. The instruction has been developed according to Council of Europe recommendations based on the reports of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment. NGO representatives pointed out that the instruction is a big step ahead in implementation and safeguarding of European standards in the human rights protection in Bulgaria, but at the same time proposed several changes, especially in regard to the procedure of providing medical examination to detainees.



*From left to right: Mr. Boyko Kotzev, Deputy Minister of Interior, Mr. Pavlin Dimitrov, Deputy Director of National Police Service, Dr. Emil Tsenkov, Director of the Information Centre on the Council of Europe*

### ***Solidarity Versus Social Exclusion***

The Information Centre was represented in the activities of a group of government and NGO experts instrumental to the introduction of the European Social Charter in Bulgaria, which focuses on meeting the Council of Europe standards in social protection. The Centre focus on solidarity with the underprivileged was exemplified by donations of human rights literature to United Nations Club in Satovcha village. The Club has been founded in 1999 in order to promote the values of the world organization in the areas of education and human rights protection among the young people of Satovcha. The UN Club in the school of Satovcha reproduced a session of the European Court of Human Rights in Strasbourg. The Information Centre also supported and participated in the conference *Directors' Forum – Bulgarian Homes for Children*, organized by the International Women's Club. It was the first time that representatives of NGOs and governmental institutions together with directors of children's homes (institutions for children deprived of parental care) have met to gain a better understanding of the issues, policies and potential resources that can improve the lives of Bulgaria's most vulnerable children.

# Coalition 2000: Public-Private Partnership to Counter Corruption

## The Coalition: Five Years of Impact

CSD has been the Secretariat of *Coalition 2000* since its launch in 1998. During that period, the Coalition has made a significant impact in the field of anti-corruption in Bulgaria. Through its efforts, both the assessment of corruption and anti-corruption policies came to reflect the best international standards. Some of its achievements include:

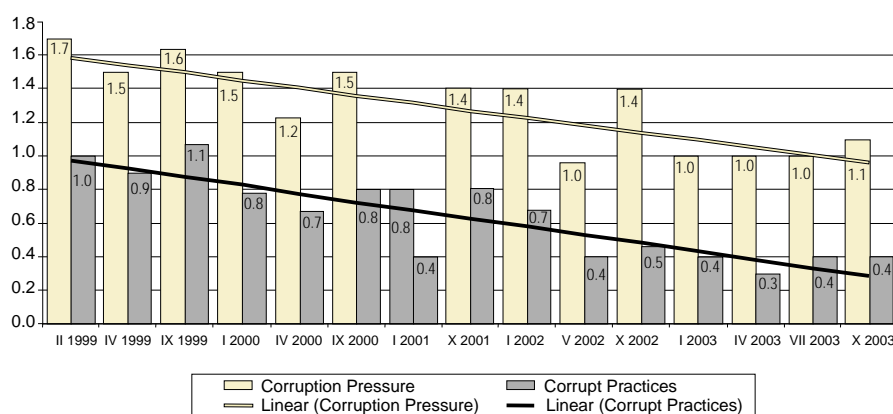
- considerably enhanced public awareness and *intolerance* to corruption;
- a tangible – almost in half – *reduction in the incidence of administrative corruption*;
- a tangible *reduction in the susceptibility of citizens to corruption*.

- successful establishment of the national and local ombudsman offices;
- anti-corruption courses for both secondary and higher education;
- supporting community action against corruption.

## I. Supporting Anti-Corruption Policy and Institution Building

The Policy Forum is the Coalition's main public-private platform. The Forum, organized annually by *Coalition 2000*, is a high profile public event of anti-corruption initiatives, focusing on the increased cooperation between civil

**Corruption Transactions  
(Number and Percent of the Population Involved)**



Source: Coalition 2000 Corruption Monitoring System

Building on these results, in 2003 *Coalition 2000* focused its efforts in the following areas:

structures and institutions in the fight against corruption. On February 11, 2003, *Coalition 2000* held its Fifth Anti-

Corruption Policy Forum. The main purpose of the Fifth Forum was to discuss the *Corruption Assessment Report 2002*. More than 150 representatives of all public and private institutions involved in the fight against corruption including government agencies, non-governmental organizations, the business and the media took part in the Forum.

In his statement Justice Minister Anton Stankov gave a positive assessment to the Policy Forum as an acknowledgment, both on the part of the government institutions and of the civil society, for the need for ongoing constructive partnership in the efforts to crack down on corruption and to foster a new, modern civic awareness that rejects the corruption model and upholds the rule of law. He underlined that the primary focus of the government Anti-Corruption Commission with the Council of Ministers was on those very corrupt practices that impaired the mechanisms of statehood, undermined national security, and served for the purpose of criminal redistribution of the national wealth. "As regards the

tackling of these problems and meeting the expectations of Bulgarian society, parliament is still falling behind", Mr. Stankov said, referring to the delay of the ombudsman law.

Minister of Interior Georgi Petkanov pointed out that acts of corruption were becoming ever more closely associated with organized crime and economic crimes. The attempts of organized criminal groups to establish contact with officials from government bodies and the local administration persisted. So did their efforts to conquer new permanent positions in legitimate business and to take part in privatization.

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*From left to right: Mr. Georgi Petkanov, Minister of Interior, Dr. Ognian Shentov, CSD Chairman, Ms. Debra McFarland, USAID Mission Director, Mr. Anton Stankov, Minister of Justice and Dr. Maria Yordanova, Director, CSD Law Program*

The **Corruption Assessment Report (CAR)** is the annual policy assessment instrument of *Coalition 2000* and still the only regular anti-corruption policy document published in Bulgaria. Having covered a comprehensive agenda in previous years, in 2003 the CAR focuses on anti-corruption reforms in the judiciary as one of the critical areas.



CAR 2003 deals with the most significant constitutional, legislative and institutional aspects of anti-corruption measures in the judiciary and combines gap analysis with extensive policy recommendations. The analysis and the policy recommendations made are supported by an anti-corruption survey in the judiciary, carried out within *Coalition 2000*'s Corruption Monitoring System.

### *Establishing Ombudsman Institution*

Initiated and advocated for over five years now by *Coalition 2000*, the establishment of the Ombudsman institution made a breakthrough in 2003 with the adoption of the Law on the Ombudsman and the amendments to the Law on Local Self-Government and Local Administration.

This allowed the Coalition to focus its efforts in the latter part of the year on setting the ground for the effective establishment of the local ombudsman

offices through enhancing community awareness. The area and scope of the public awareness campaign aimed at promoting the ombudsman institution on both national and local level were further expanded. After the legislative developments in mid 2003, a number of public policy and capacity building events throughout the country (Sofia, Plevna, Gotse Delchev, Brezovo, Kurdzhali, Batak and Rousse) have been held - information days, municipality training seminars, training of trainers, workshops, public hearing, etc. Work also involved presenting the achievements and current problems to the international community, popularizing the experience of the successful performance of similar institution in neighboring and other European countries. The latest example was the regional conference *The Ombudsman Institution in South Eastern Europe*, held on November 28-30, 2003.

## **II. Building Anti-Corruption Capacity and Promoting Good Governance**

### *Anticorruption Education*

Preventing corruption through good governance education is one of the priorities of *Coalition 2000*. Some of the practical results attained by the Coalition in 2003 include:

- Prompting public debate on anti-corruption education as a part of the strategy for the prevention and the fight against corruption;
- Identifying anti-corruption education and measures against corruption in the education sector as priority areas for reform;
- Further development of the public-private partnership in the area of the anti-corruption education and insti-

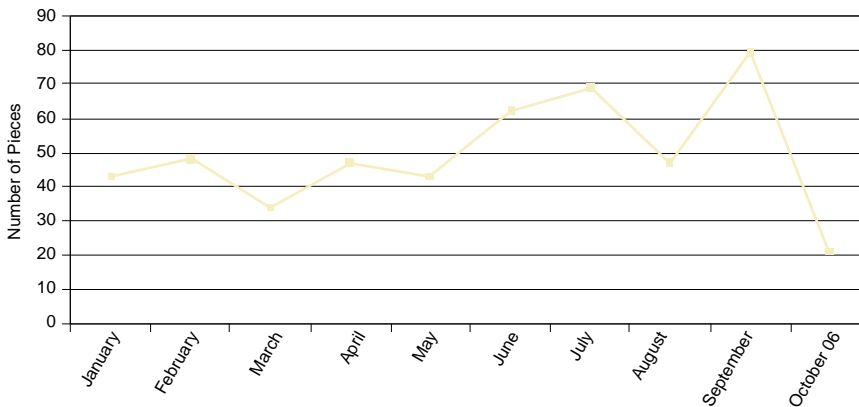
gation of a dialogue between state institutions and civil society.

*Coalition 2000* established an anticorruption education expert group, which prepared a second updated version of the anti-corruption education manual published in the year 2000. The manual is adapted for university curricula and includes chapters on corruption as a social phenomenon, anti-corruption strategies, the role of civil society in curbing corruption, and international practices. It was presented during a round table discussion on November 25 which focused on promoting the launch of an anti-corruption course in the curricula of high schools in Bulgaria. All participants, including from Ministry of Education and Science, university lecturers and representatives of the academic circles, welcomed the idea of educating young people on corruption and anticorruption strategies, as a means for targeting future generations, which will one day either become civil servants or customers to the

services offered by the state administration.

For anti-corruption training to be effective, higher and secondary education establishments need to *tackle corruption within their own ranks*. In September 2003, the Corruption Monitoring System (CMS) of *Coalition 2000* came into the media spotlight, exemplifying its impact on the policy debate about corruption. The presentation of the quarterly indexes of CMS on September 10 sparked a strong reaction by both critics of corruption in the universities and academic faculty and management. The specific reason was that compared to the previous quarterly data, the CMS registered a substantial increase in the bribery demands on citizens by university professors (21.5% in July 2003, up from 11.8% in May 2003). In addition, *Coalition 2000's* media monitoring showed that university corruption had not received adequate press coverage.

**Number of Media Stories about Corruption in Education Establishments in 2003**



Source: *Media Monitoring of Coalition 2000*

In response to enhanced public attention to these issues, on September 30 *Coalition 2000* convened a round table which managed to put forward a number of specific measures for dealing with university corruption. The meeting was attended by representatives of most stakeholders – Ministry of Education, Parliament, the National Audit Office (NAO) and other financial control institutions, university management and faculty from all over the country, civic groups, students, etc. The input from the NAO was particularly productive helping to identify risk areas in the management of higher education establishments. Among the areas for reform and risk factors, identified at the round table were the exams mechanism, the publication of textbooks and reference material, the level faculty pay, the lack of standards in the registration of universities, campus corruption, etc. MPs informed of pending changes to the higher education legislation.

The approach to the involvement of stakeholders, intended by the Coalition through this round table was comparable to its approach to anti-corruption in the judiciary. A similar reaction came from the judiciary few years ago when the magistrates started to top the corrupt officials list of the CMS. Today, as a result of several instruments through which *Coalition 2000* engaged the magistrates, there are a number of anti-corruption policies in this area, including a national strategy for reform. *Coalition 2000* expects a comparable development to take place as regards the higher education.

#### *Anti-Corruption Business Practices and Coalitions*

Private sector business integrity is of high importance not only at the company level but for the overall economic and social development of the country (it produces more than 70% of GDP). In



*From left to right: Mr. Kosta Kostov, Chairman, Parliamentary Committee for Fighting Corruption, Mr. Georgi Nikolov, Chairman, National Audit Office, Dr. Ognian Shentov, CSD Chairman*



December *Coalition 2000* followed up on its first corporate corruption survey and presented its updated findings to the expert, policy and business community. *Coalition 2000* monitoring showed that corruption is as pervasive in the private sector, especially in contracts with bigger companies, as in the public sector, with corruption in the banking sector posing the biggest long-term stability threat to the economy. The survey results were announced during a participation of *Coalition 2000* experts in a two day international conference in December 2003, organized by the government Anti-Corruption Commission and the Bulgarian International Business Association.

### *Promoting International Anti-Corruption Standards*

On October 23, 2003 Ms. Eva Joly, the renowned investigative magistrate, delivered a lecture depicting her experience in large-scale corruption cases in France. Ms. Joly expressed her view that economic crime should be investigated and penalized on a par with all other violations and that such investigations are successful on condition magistrates are independent. In relation to the overall need to step up cooperation in comba-

ting high level corruption Ms. Joly presented the recommendations laid down in the Paris Declaration, a document launched by her on June 19, 2003. The Declaration offers measures to deter serious forms of corruption and ensure efficient investigations in all countries. The document was signed by 25 international figures, amongst them world-known politicians, magistrates, journalists and several Nobel Prize winners.

### III. Media Against Corruption

#### *Investigative Journalism Awards 2003*

On February 26, 2003, *Coalition 2000* announced its first annual awards for journalists working in the area of anti-corruption. The award ceremony took place at the American Center in Sofia in the presence of representatives of the United States Embassy, MPs, governmental institutions, non-government organizations and mass media. Honorary diplomas were awarded to the three top awarded journalists: Mr. Krassimir Dobrev, *Sega* daily, for his article "State Enterprises: the Feeding Trough of the 'New' Time"; Mr. Stanimir Vaglenov, *24 Chassa* daily, for his article "How (MP)



Ms. Eva Joly, Special Advisor to the Norwegian Government



Mr. Roderick Moore, Deputy Chief of Mission, US Embassy to Bulgaria, who presented the awards, and Ms. Rummyana Emanuilidu

Dancho (Yordan) Tsonev Took a Large Bite off the Black Sea Beach Near Rezovo"; Ms. Romyana Emanuilidu, correspondent in Burgas of *Dnevnik* daily and *Radio Free Europe* for her article "The State Reserve Still Looking for the Money from 'Black Sea Salt' Company".

#### ***The Importance of Free Media Against Corruption***

CSD and the Royal Norwegian Embassy to Bulgaria co-organized a two-day media seminar on "The Importance of a Free Media in the Fight against Corruption" on October 22-23. Bulgarian and Norwegian investigative journalists and media specialists debated on the role of the investigative journalism to reveal large-scale corruption and the right of access to information.

#### **IV. Corruption Monitoring System**

The Corruption Monitoring System (CMS) is an essential part of the implemented anti-corruption initiatives of *Coalition 2000* in Bulgaria. The CMS

consists of a system of quantitative and qualitative monitoring instruments and was designed to generate information about the structure and dynamics of corrupt behavior, the scope and dynamics of corruption. In addition, they have helped measure the *Coalition 2000* progress toward achieving its objectives which includes a reduction in half of the prevalence of corruption in Bulgaria.

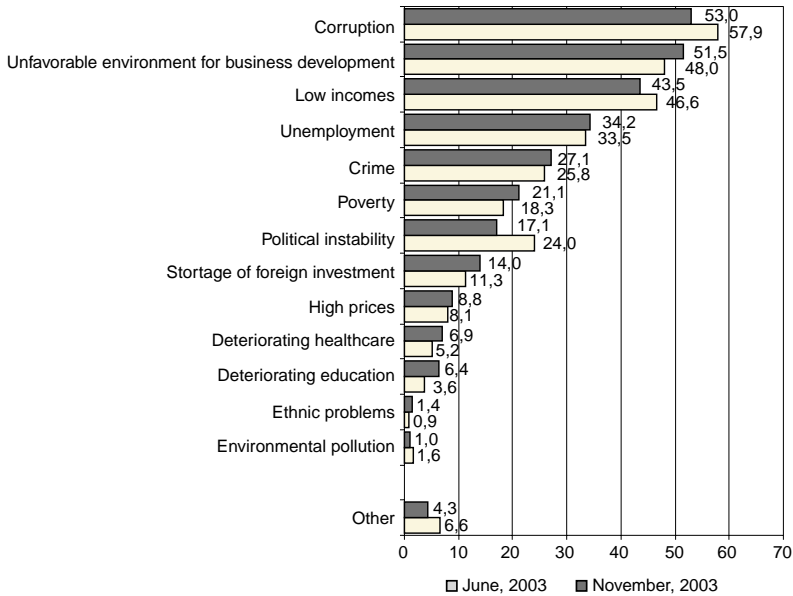
The results of the monitoring of the general public and the business community have shown that the level of corruption has not changed in 2003. Perceptions of the government policies to curb corruption, however, tend to deteriorate. The basic reason for this is the mismatch between expectations for corruption to be reduced and the standstill in this respect observed since mid-2002.

Considering the long-term trend, it could be concluded that the "soft" measures to curb corruption adopted so far (public pressure) cannot be effective to achieve further progress. Efforts have to be made to structurally reorganize different social sectors in order to reduce "system



*From left to right: Mr. Boyko Todorov, CSD Program Director, Ambassador Rolf Baltzersen, Royal Norwegian Embassy, Ms. Eva Joly, Special Adviser to the Ministries of Justice and Foreign Affairs of Norway, Mr. Konstantin Palikarski, Secretary, Anti-Corruption Coordination Commission, Council of Ministers of Bulgaria and Prof. Rune Ottosen, School of Journalism in Oslo*

### Corruption and the Priorities of Society in 2003 (main problems facing Bulgaria - opinion of businesses)



Source: Coalition 2000 Corruption Monitoring System

generated” incentives for corruption transactions. One of its strongest impact features of the CMS is early identification of most vulnerable public services; having identified corruption in the education system earlier in 2003, in the reported period *Coalition 2000* followed the indications of the CMS and initiated a public debate on this issues (described below in Anti-Corruption Education in more detail).

### V. Civil Society Against Corruption

During the first phase of *Coalition 2000* the small grants program for NGOs was particularly instrumental in raising public awareness campaign at the local level. By 2003, the Coalition had engaged a significant number of civil society organizations in promoting anti-corruption education, the establishment of local

ombudsman offices, and targeting corruption in specific public services.

Some of the practical results of the NGO projects completed in 2003 include:

- The first effectively operating local ombudsman office was established in November 2003 in the municipality of Nedelino, following the amendments to the local governance legislation regulating this area.
- The Public Barometer Foundation in Sliven has contributed to reduced corruption risks in the field of public concessions by way of changes to the legislation regulating water concessions.

The call for proposals from NGOs, published in October 2003, attracted bids from a significantly larger number of

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NGOs working on anti-corruption than in previous years. This was an indication of the impact of the continuing assistance provided by the Coalition to the anti-corruption capacity of NGOs. The civil society program, started in late 2003, has three priority areas:

- Institutionalizing civic control on the local government and self-government authorities - support for the establishment and development of the ombudsman institution.
- Anti-corruption education: encouraging the development of anti-corruption courses in the curricula of high and secondary schools
- Typology of and counteraction to corruption practices in the public sphere, incl. local, district and central administration



## **Part Two**

# **Administration and Management**



# Administration and Management

Sound general and financial management have always been a linchpin of CSD's institutional capacity with accountability and transparency established as the leading principles of its operation. CSD has tried to ensure wide publicity of its activities and the results there of through a number of channels, including:

- publishing independent, annual audit reports since 1992 (CSD's financial statements and KPMG audit report for 2003 follow);
- performing audits of individual projects since 1992;
- publishing annual reports since 1994;
- uploading detailed information on CSD's activities on its web-site;
- releasing information on projects and activities in the mass-media;
- publishing a range of print materials, etc.

As one of the leading organizations in the NGO sector in Bulgaria CSD

represents a model for the development of other non-governmental players in the country. CSD has consistently tried to transfer its know-how and best practices in administration and management to its partner organizations and the NGO community at large. Following a 2002 Governing Board decision on the requirements for its grant operations, in 2003 CSD put a special effort into supporting the institutional capacity of the network of non-governmental organizations it works with. In 2003, these efforts included capacity building assistance to CSD grantees, in particular on the development of internal regulations, project management according donor requirements, accounting and reporting, transparency in the work of non-profit organizations. Technical support was provided to NGOs through a number of site visits in Sofia and around the country.

In 2003, CSD significantly enlarged the number of NGOs to which it provides grant management assistance to include organizations mostly outside the capital city.

## CSD grantees in 2003

- Bulgarian Youth League "Stefan Stambolov", Smolyan
- Public Barometer Civic Association, Sliven
- Civic Association for Countering Corruption and Illegal Building, Sofia
- Center for the Study of Political Processes, Shoumen
- Town and Culture Foundation, Varna



- Foundation for Entrepreneurship Development, Sofia
- Black Sea Legal Community, Bourgas
- Center for Media Development, Sofia
- Space Culture Foundation
- “St. Kliment Ohridski” Foundation
- Agency for Regional Development and Business Center, Vidin
- Open Society Club, Rousse
- IGA Foundation, Pazardzhik
- Association of Municipalities “Hebar”, Plovdiv
- “Mayday” Foundation, Varna
- Association of the Bulgarian Black Sea Municipalities, Varna
- Regional Business Center for Support of SMEs, Pernik
- “Egida” Foundation, Goce Delchev
- ACCESS Association, Sofia
- Edu Foundation, Sofia
- Foundation of the Bulgarian Entrepreneur
- Bulgarian Association for Fair Elections and Civil Rights, Razgrad
- Bulgarian Association for Out-of –Court Conflict Resolutions, Plovdiv

In 2003, CSD employed 56 staff of which 43 were management and professional, including part-time consultants, and 13 were support personnel. The Center also works with a significant number of external contributors.

# List of Staff

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Alexander Stoyanov, Director of Research

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Margarita Pavlikianova, Senior Analyst  
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Ralitza Ruseva, Analyst  
Angelina Videnova, Analyst  
Kostadinka Andreeva, Head of Data Processing Unit  
Bogdana Dermendjieva, Field Manager  
Borislava Gerginova, Bookkeeper

## Information Centre on the Council of Europe, Sofia

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Dimitrinka Slavcheva, Assistant

European Program

Boyko Noev, Director  
Denislava Simeonova, Project Coordinator  
Chavdar Chervenkov, Senior Fellow  
Philip Gounev, Research Fellow  
Milena Yordanova, Assistant

Coalition 2000 Secretariat

Zhivka Damianova, PhD, Senior Advisor  
Gergana Atanasova, Secretary  
Zornitza Inovska, Assistant  
Maria Karagiozova, Project Coordinator  
Nikolay Petrov, Media Advisor

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Mariana Yankova, Administrative Secretary  
Christina Todorova, Executive Assistant  
Nickolay Karshev, LAN Administrator  
Tsanko Christov, LAN Administrator

Financial Department

Maria Georgieva, Accountant  
Lazarina Andonova, Cashier/Bookkeeper

Technical Support

Dimitar Dimitrov  
Boyko Tasev  
Marin Kotzev  
Alyosha Purvanov

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- Evgenii Dainov,** PhD, Director, Centre for Social Practices
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- George Prohasky,** PhD, Co-Chairman, Center for Economic Development
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- Tihomir Bezlov,** Senior Analyst, Vitosha Research
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- Pasquale Ferraro,** Former Deputy Director General, International Development Law Institute, Rome
- William Meyer, Esq.,** Hutchinson, Black and Cook; Central and East European Law Initiative, American Bar Association

## Sources of Support and Cooperation

American Bar Association Central European And Eurasian Law Initiative (CEELI)  
The Albanian Center for Economic Research (ACER)  
The Bertelsmann Foundation  
British Association for Central and Eastern Europe  
Center for Democracy and Free Enterprise, Prague  
Center for Democracy, Washington DC  
Center for International Private Enterprise (CIPE), Washington DC  
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Institute for Development Research and Alternatives (IDRA), Tirana  
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Saferworld, UK

School of Slavonic and East European Studies, London

Stiftung Wissenschaft und Politik, Berlin

The Gallup Organization, Budapest

The Greek Ombudsman

United Nations Development Programme

United States Agency for International Development

United States Department of State

Urban Institute

World Bank

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## **Part Three**

### **Financial Review**







CENTER FOR  
THE STUDY OF  
DEMOCRACY

**Center for the Study of Democracy**  
**For the period ended 31 December 2003**  
**With Independent Auditors' Report Thereon**



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

Sofia, 30 April 2004

We have audited the accompanying balance sheet of Center for the Study of Democracy as at 31 December 2003 and the related statement of revenues, expenditures and changes in fund balances, changes in unrestricted fund balance and cash flows for the year then ended. These financial statements are the responsibility of the management of the Center for the Study of Democracy. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As at 31 December 2003 Center for the Study of Democracy has reported investments, which are carried at cost for the total of BGN 15 415, net assets as at 31 December 2003 standing at BGN 184 715. The financial statements of the subsidiaries are not consolidated as per the requirements of IAS 27 Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position of the Center for the Study of Democracy as of 31 December 2003, and of the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*KPMG Bulgaria*

KPMG Bulgaria OOD  
37 Fridtjof Nansen Str  
1142 Sofia, Bulgaria



## Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended 31 December 2003

<i>In BGN</i>	Note	2003	2002
Revenue from grants, contributions and projects	1	3,237,278	1,600,208
Expenses on grants, contributions and projects	2	(2,955,930)	(1,293,443)
General and administrative expenses		(201,447)	(126,768)
<b>Gross excess of revenue over expenditure</b>		<u>79,901</u>	<u>179,997</u>
Foreign exchange gains/(loss) – net	3	(203,024)	(271,974)
Interest income		22,058	24,981
Interest expense	9	(72,753)	-
Other financial expenses		(3,349)	(5,757)
Other income		287	8,778
<b>Excess of expenditure over revenue for the year</b>		<u>(176,880)</u>	<u>(63,975)</u>
Financial income	8	61,870	30,433
Income tax	8	(14,539)	(7,151)
<b>Profit from trading activities</b>		<u>47,331</u>	<u>23,282</u>
<b>Total excess of expenditure over revenue for the year</b>		<u>(129,549)</u>	<u>(40,693)</u>
Accumulated excess of revenue over expenditure brought forward		2,935,585	2,976,278
<b>Unrestricted fund balances at 31 December 2003</b>		<u><u>2,806,036</u></u>	<u><u>2,935,585</u></u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 19.

**Unrestricted fund balance**

As at 31 December 2003

<i>In BGN</i>	<b>2003</b>	<b>2002</b>
Balance at 1 January 2003	2,935,585	2,976,278
Total (Surplus) of revenue over expenditure for the year	<u>(129,549)</u>	<u>(40,693)</u>
<b>Balance at 31 December 2003</b>	<u><u>2,806,036</u></u>	<u><u>2,935,585</u></u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 19.

## Balance Sheet

As at 31 December 2003

<i>In BGN</i>	<b>Note</b>	<b>2003</b>	<b>2002</b>
<b>Assets</b>			
Property, plant and equipment	5	767,046	716,056
Intangible assets	6	4,760	6,620
Investments	7	15,415	10,006
Other investments	8	588,862	1,192,054
Other receivables	9	341,292	-
<b>Total non-current assets</b>		<u>1,717,375</u>	<u>1,924,736</u>
Inventories		192	108
Receivables	10	164,944	154,002
Cash and cash equivalents	11	1,445,394	1,404,949
Deferred expenses	12	16,776	777,315
<b>Total current assets</b>		<u>1,627,306</u>	<u>2,336,374</u>
<b>Total assets</b>		<u><u>3,344,681</u></u>	<u><u>4,261,110</u></u>
<b>Liabilities</b>			
Payables	13	74,918	89,383
Deferred revenue	14	463,727	1,236,142
<b>Total current liabilities</b>		<u>538,645</u>	<u>1,325,525</u>
<b>Unrestricted fund balance</b>		<u><u>2,806,036</u></u>	<u><u>2,935,585</u></u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 19.

## Statement of cash flows

For the year ended 31 December 2003

<i>In BGN</i>	Note	2003	2002
<b>Operating activities</b>			
Gross excess of expenditure over revenue		(129,549)	(40,693)
Adjustments for:			
Depreciation	5,6	61,707	51,604
Foreign exchange gains from revaluation assets and liabilities denominated in foreign currency		(36,623)	(38,735)
Interest expenses accrued		72,752	-
Taxes accrued		14,539	7,151
<b>Cash flow from operating activities before changes in working capital</b>		<u>(17,174)</u>	<u>(20,673)</u>
(Increase)/ decrease in assets from operating activities		748,678	(846,958)
Increase/ (decrease) liabilities from operating activities		(836,712)	1,107,090
<b>Cash flows from operating activities</b>		<u>(105,208)</u>	<u>239,459</u>
<b>Investing activities</b>			
Purchase of tangible fixed assets		(110,248)	-
Purchase of intangible assets		(590)	-
Purchase of investments		(5,409)	(52,011)
Proceeds from investments held-to-maturity		602,713	-
<b>Cash flows from investing activities</b>		<u>486,466</u>	<u>(52,011)</u>
<b>Financing activities</b>			
Acquisition of other investments		-	(1,192,054)
Interest received		479	22,947
Extended loan		(341,292)	-
<b>Cash flows from financing activities</b>		<u>(340,813)</u>	<u>(1,169,107)</u>
Net increase/(decrease) in cash and cash equivalents		40,445	(981,659)
Cash and cash equivalents at beginning of year		1,404,949	2,386,608
<b>Cash and cash equivalents at end of year</b>	11	<u>1,445,394</u>	<u>1,404,949</u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 19. These financial statements have been approved by Mr. Vladimir Yordanov on April 30, 2004.

Vladimir Yordanov  
Executive Director



## Notes to the financial statements

### Significant accounting policies

The Center for the Study of Democracy (CSD) is a non - profit organization domiciled in Bulgaria. The financial statements were authorized for issue by the Executive Director on April 30, 2004.

#### (a) Activity background

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

CSD objectives are:

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

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

#### (b) Statement of compliance

The financial statements of the Center for the Study of Democracy have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

#### (c) Basis of preparation

The financial statements are presented in Bulgarian leva. Hyperinflation adjustments have been made in order to show the effect of inflation on the purchasing power of the equity interest as at 31 December 1998. Due to the insignificant inflation growth in the financial years ended 1999, 2000, 2001, 2002 and 2003, the Statement of Revenues, Expenditures and Changes in Fund Balances for that years and the Balance Sheet have not been adjusted according to the official inflation index.



## Notes to the financial statements

### Significant accounting policies (continued)

#### (d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are revaluated at the foreign exchange rate ruling at that date. The resulting translation difference is recognised in Statements of revenues, expenditures and changes in fund balances. The BNB official exchange rate of the USD as at 31 December 2002 is 2.06604 BGN/USD and as at 31 December 2003 is 1.54856. The average exchange rate for the year 2003 is 1.73283 BGN/USD. The official closing rate as at 31 December 2003 of the EUR is 1.95583 and of the USD is 1,54856.

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

##### (i) Owned assets

Items of Property plant and equipment are stated at cost less accumulated depreciation and impairment losses. They are reported in the Balance Sheet applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their costs have been inflated as at 31 December 1998.

Property plant and equipment and intangible assets have not been inflated for periods ended 1999, 2000, 2001, 2002 and 2003. The inflation rates for these periods are considered insignificant, and no restatement of the financial statements has been made. The inflation rates for each period are presented in the table below:

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

##### (ii) Depreciation

Property plant and equipment have been depreciated using the straight - line method. The rates of depreciation used are as follows:

Buildings	4%
Machines and equipment	20%, 25%
Fixtures and fittings	15 - 20%
Vehicles	15%
Computers and software	33%

## Notes to the financial statements

### Significant accounting policies (continued)

#### (f) Intangible assets

Intangible assets that are acquired by the Center are stated at cost less accumulated amortisation and impairment losses. They are reported in the Balance Sheet applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their costs have been inflated as at 31 December 1998.

##### (i) Amortisation

Intangible assets as at 31 December 1998 have been amortised using the straight – line method. The rate of amortisation used is 20%.

#### (g) Investments

Subsidiaries are those entities controlled by the Center for the Study of Democracy. Control exists when the Center has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments classified as long-term assets are carried at cost, less any amounts written off to recognise a decline in the value of the investment.

The subsidiaries perform economic activity that is different from the activities performed by the CSD. The financial statements of the subsidiaries are not consolidated and the management carries the investments at cost. In the present report information is disclosed (refer to note 7) for the activities of these subsidiaries concerning their net assets and financial results.

#### (h) Other investments

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

#### (j) Receivables

Receivables are stated at cost less impairment losses. (see accounting policy (l)).

#### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits.

## Notes to the financial statements

### Significant accounting policies (continued)

#### (l) Impairment

The carrying amount of the Center's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of revenues, expenditures and changes in fund balances.

##### (i) *Calculation of recoverable amount*

The recoverable amount of the Center's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

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

##### (ii) *Reversal of impairment*

An impairment loss in respect to held-to-maturity securities or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

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

#### (m) Payables

Payables are stated at cost.

## Notes to the financial statements

### Significant accounting policies (continued)

#### (n) Revenue recognition and expense reporting

Revenue is recognized in the Statement of Revenues, Expenditures and Changes in Fund Balances on the basis of stage of completion of the project as reported by the CSD to the commissioning bodies. Revenue is recognized as income for the period to match the related costs, on a systematic basis. Project contracts are denominated in foreign currency, while the related expenses are incurred in BGN.

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

Reports are prepared as contracted with financing organizations. Respective amounts of BGN expenses are translated at the specified rate and an expense report in foreign currency is produced. It is used to report on the progress of the project to the financing organization. Reporting periods are determined in the project contract.

#### (o) Taxation

CSD is a non-profit organization. No corporate income tax is levied in accordance with current Bulgarian legislation. As at 31 December 2002 and 31 December 2003 the Center has gained financial income from dealing with securities under agreement for trading of securities and bonds. The management has estimated that this is income from trading activities and has accrued the respective taxes due.

**Notes to the financial statements**

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## Notes to the financial statements

### 1. Revenue from grants, contributions and projects

<i>In BGN</i>	2003	2002
USAID/DPK Consulting - Coalition 2000		
Anti-Corruption Program	2,050,460	-
Council of Europe – Information Centre on the Council of Europe	128,302	122,004
The German Marshall Fund	53,615	60,460
Royal Ministry of Foreign Affairs, Norway - Trafficking and Corruption: Monitoring and Prevention	-	224,282
Royal Ministry of Foreign Affairs, Norway - Reforming the Judiciary in Bulgaria: Towards the Introduction of Modern Registration System	-	46,811
SELDI phase II - Coalition Building and Monitoring for Anti-Corruption	-	586,740
CIPE - Balkan/Black Sea Anti-Corruption Workshop	-	19,851
Conflict Management Group - Conflict Vulnerability in Bulgaria	-	57,600
British Embassy -Trafficking and Corruption in Bulgaria	119,535	-
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	278,470	-
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	126,692	-
European Commission - The Informal Economy in the EU Accession Countries (Inforec)	72,365	-
UNDP - Review of the Administrative and Commercial Justice Systems	42,800	-
British Embassy - Evaluation of Drugs Consumption in Bulgaria	45,274	-
Royal Ministry of Foreign Affairs, Norway - Prevention of Corruption in the Security Forces	184,887	-
Saferworld,UK - Implementing and Enforcing Arms Export Controls and Combating Small Arms Proliferation in Bulgaria	22,200	-
CIPE - Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	22,361	-
Other projects	49,711	447,314
	<u>3,196,672</u>	<u>1,565,062</u>
Income from financing for assets	40,606	35,146
	<u>3,237,278</u>	<u>1,600,208</u>

## Notes to the financial statements

### 2. Expenses on grants, contributions and projects

<i>In BGN</i>	2003	2002
Salaries and benefits	135,573	92,002
Hired services	1,695,810	747,313
Depreciation	40,606	35,146
Supplies and consumable	142,317	58,729
Other expenses	941,624	360,253
	<u>2,955,930</u>	<u>1,293,443</u>

Hired services are related particularly to undertaking of the projects activities and are reported to the grantors to the amount of BGN 1,695,810. They include expenses for honoraria, communication and printing services. Substantial amount of honoraria consists of payment for consulting services to outside and local consultants and experts.

### 3. Foreign exchange gains or losses

<i>In BGN</i>	2003	2002
Exchange rate gains	97,561	128,527
Exchange rate losses	<u>(300,585)</u>	<u>(400,501)</u>
	<u>(203,024)</u>	<u>(271,974)</u>

### 4. Impairment of assets

<i>In BGN</i>	2003	2002
<b>Balance at the beginning of the year</b>	(19,611)	(19,611)
Losses on impairment of receivables incurred during the period	-	-
Write off receivable against provisions incurred in previous years	19,611	-
<b>Balance at the end of the year</b>	<u>-</u>	<u>(19,611)</u>

## Notes to the financial statements

## 5. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Under construc- tion	Total
<i>Cost</i>							
Balance at 1 January 2003	229,662	135,247	175,116	90,200	-	347,133	977,358
Acquisitions	76,224	18,574	13,146	-	2,303	-	110,247
Balance at 31 December 2003	<u>305,886</u>	<u>153,821</u>	<u>188,262</u>	<u>90,200</u>	<u>2,303</u>	<u>347,133</u>	<u>1,087,605</u>
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2003	5,731	58,256	127,308	58,797	-	11,210	261,302
Depreciation charge for the year	5,918	33,379	13,646	6,112	202	-	59,257
Balance at 31 December 2003	<u>11,649</u>	<u>91,636</u>	<u>140,954</u>	<u>64,909</u>	<u>202</u>	<u>11,210</u>	<u>320,559</u>
<i>Carrying amount</i>							
At 1 January 2003	<u>223,931</u>	<u>76,991</u>	<u>47,808</u>	<u>31,403</u>	<u>-</u>	<u>335,923</u>	<u>716,056</u>
At 31 December 2003	<u>294,237</u>	<u>62,185</u>	<u>47,308</u>	<u>25,291</u>	<u>2,101</u>	<u>335,923</u>	<u>767,046</u>

## 6. Intangible assets

<i>In BGN</i>	Software	Other	Total
<i>Cost</i>			
Balance at 1 January 2003	13,228	-	13,228
Acquisitions	-	590	590
Balance at 31 December 2003	<u>13,228</u>	<u>590</u>	<u>13,818</u>
<i>Amortisation and impairment losses</i>			
Balance at 1 January 2003	6,608	-	6,608
Amortisation charge for the year	2,425	25	2,450
Balance at 31 December 2003	<u>9,033</u>	<u>25</u>	<u>9,058</u>
<i>Carrying amount</i>			
At 1 January 2003	<u>6,620</u>	<u>-</u>	<u>6,620</u>
At 31 December 2003	<u>4,195</u>	<u>565</u>	<u>4,760</u>



## Notes to the financial statements

### 7. Investment in associates

<i>In BGN</i>	2003	2002
Agency Vitosha EOOD	5,006	5,006
Vitosha Research EOOD	5,000	5,000
Project 1 EOOD	5,409	-
	<u>15,415</u>	<u>10,006</u>

CSD is a non-profit organisation which has invested in two subsidiaries (Agency Vitosha EOOD and Vitosha Research EOOD) in prior accounting periods. During 2003 the Center has invested in a new subsidiary which is a 100 percent ownership of the CSD – Project 1 EOOD. The main activity is management, rent, sale and purchase of property, project management. The capital of the company is 5,000 BGN. Their financial statements have been audited by certified chartered accountants according to Bulgarian legislation, for which some details are presented below:

<i>In BGN</i>	Net Assets		Profit after tax/(Loss)	
	2003	2002	2003	2002
Agency Vitosha EOOD	47,835	49,740	(1,905)	6,766
Vitosha Research EOOD	131,731	67,525	67,258	40,609
Project 1 EOOD	5,149	-	114	-
	<u>184,715</u>	<u>117,265</u>	<u>65,467</u>	<u>47,375</u>

### 8. Other investments

<i>In BGN</i>	Maturity	Nominal value		Number of bonds	2003	2002
		EUR	BGN		BGN	BGN
Bonds held-to-maturity issued by:						
Bulgarian – American						
Credit Bank	28 March 2005	300,000	586,749	300	588,862	590,529
First Investment Bank	24 October 2003	300,000	586,749	300	-	601,525
					<u>588,862</u>	<u>1,192,054</u>

The financial assets held-to-maturity realise gains accounted for as financial income in the Statement of revenues, expenditures and changes in fund balances in the amount of BGN 61,870.

The Center has accrued income and municipality tax in the Statement of revenues, expenditures and changes in fund balances in the amount of BGN 14,539.

## Notes to the financial statements

### 9. Other receivables

Other receivable in the amount of BGN 341,292 represent long – term loan extended to subsidiary Project 1 EOOD presented at amortized cost. In accordance with loan contract dated 10 November 2003 between the Center and Project 1 EOOD, the total amount of the loan is 405,000 EUR paid in four tranches – 34,500 EUR, 5,942 EUR, 171,000 EUR paid by the end of December 2003 and 193,558 EUR is due in 2004. The loan is payable from 2006 until 2015.

### 10. Receivables

<i>In BGN</i>	<b>2003</b>	<b>2002</b>
Completed Projects	131,679	107,219
Other receivables	33,265	66,394
Impairment of assets	-	(19,611)
	<u>164,944</u>	<u>154,002</u>

### 11. Cash and cash equivalents

<i>In BGN</i>	<b>2003</b>	<b>2002</b>
In local currency	63,236	5,114
In foreign currency	1,341,160	1,342,928
Deposits	<u>2,560</u>	<u>2,560</u>
<b>At bank</b>	<u>1,406,956</u>	<u>1,350,602</u>
In local currency	25,697	25,078
In foreign currency	<u>12,741</u>	<u>29,269</u>
<b>In hand</b>	<u>38,438</u>	<u>54,347</u>
	<u>1,445,394</u>	<u>1,404,949</u>

## Notes to the financial statements

### 12. Deferred expenses

<i>In BGN</i>	2003	2002
USAID/DPK Consulting - <i>Coalition 2000</i> Anti-Corruption Program	-	595,416
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	12,633	85,324
The German Marshall Fund	-	25,218
European Commission - The Informal Economy in the EU Accession Countries (Inforec)	-	38,117
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	20,299
InterMedia - International Audience Research Program	-	4,942
GVG - Study on the Social Protection Systems in the 13 Applicant Countries	-	5,412
CIPE - Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	4,143	-
Other projects	-	2,587
	<u>16,776</u>	<u>777,315</u>

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

### 13. Payables

<i>In BGN</i>	2003	2002
Payable to the budget	22,646	36,159
Salaries, benefits and social security payable	17,490	20,010
Payable to suppliers	21,220	10,595
Other payables	13,562	22,619
	<u>74,918</u>	<u>89,383</u>

## Notes to the financial statements

## 14. Deferred revenue

<i>In BGN</i>	2003	2002
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	258,471	276,251
USAID/DPK Consulting - <i>Coalition 2000</i> Anti – Corruption Program	94,256	633,500
CIPE - Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	8,742	-
The German Marshall Fund		63,254
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	48,799
British Embassy - Evaluation of Drugs Consumption in Bulgaria	-	46,494
UNDP - Review of the Administrative and Commercial Justice Systems	-	42,800
Other	-	1,342
<b>Deferred financing for project activities</b>	<u>361,469</u>	<u>1,112,440</u>
<b>Deferred financing for fixed assets</b>	<u>102,258</u>	<u>123,702</u>
	<u>463,727</u>	<u>1,236,142</u>

## Notes to the financial statements

### 15. Financial instruments

#### *Effective interest rates and repricing analysis*

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

<i>In BGN</i>		Effective				
	Note	Interest Rate	Total	6 months or less	1 – 2 years	more than 5 years
Cash and cash equivalents:						
Deposit in the Bulgarian - American Credit Bank - fixed rate per a.n.						
		4,05%	483,574	483,574	-	-
Cash in hand						
		-	38,438	38,438	-	-
Cash at bank						
	11	0,1 -0,2%	923,382	923,382	-	-
			<u>1,445,394</u>	<u>1,445,394</u>	<u>-</u>	<u>-</u>
Bonds issued by the Bulgarian - American Credit Bank						
	8	6,67%	588,862	-	588,862	-
Extended loan to related parties "Project 1" EOOD						
	9	7,5%	341,292	-	-	341,292

## Notes to the financial statements

### 16. Related parties

Related party payables	Nature of the related party relationship	Transaction during the year	Amount	Outstanding balance 31 December 2003
ARC Fund	40% management control	Partner organization within <i>Coalition 2000</i> Initiative	85,854 USD equivalent to 149,391 BGN	-
Project 1 EOOD	100% management control	Extended loan facility dated 10 November 2003 in 3 tranches	211,442 EUR equal to 413,544 BGN	413,544 BGN receivable (historical cost)

### 17. Subsequent events

In accordance with loan agreement between the Center for the Study of Democracy and Project 1 EOOD, the last fourth tranche of the contract in the amount of 193,558 EUR equivalent to 379,431 BGN has been paid on 12 January 2004.

### 18. Contingencies

There are no contingencies to report on.







