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.

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

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

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

The past year has been an important milestone for the Center for the Study of Democracy. The twenty-year anniversary of the “velvet revolutions” of 1989, which marked the beginning of democratization in Eastern Europe, has served as an occasion for taking stock of the transformations undergone by Bulgaria's state institutions, market actors and civil society. Over the past two decades, the role of public policy think tanks has been both challenging and very rewarding. Enhanced civic expertise and the professionalization of social activism were never merely ends in themselves: they have enabled Bulgaria’s NGO community to effectively act as a partner to the national government as well as a check on state authority.

During this whole period of transition to democracy and free markets the Center for the Study of Democracy was among those non-governmental organizations, which remained true to their mission. The Center shapes the civic agenda and influences national policies, thus building bridges of cooperation between the private and public sectors. Effective interaction between businesses, civil society and state institutions is a necessary prerequisite for the success of the European project in the country. The NGO sector has been very active in the practical implementation and monitoring of reforms in the country, thus ensuring their continuity and sustainability during the defining years of the transition period.

Since the second half of the 1990s CSD has been actively addressing non-traditional (soft) security challenges. Overcoming obsolete stereotypes of isolating the security sector by placing it out of reach of civic control, CSD has acted in an innovative and proactive manner by introducing key topics onto the country’s socio-political agenda, such as anti-corruption and the counteraction of organized crime.

Over the past two decades the Center for the Study of Democracy has had a considerable impact upon national policies by means of the high quality and objectivity of its research as well as through its civic activism. CSD contributed to formulating the reforms needed to make Bulgaria’s European and Euro-Atlantic integration possible. Throughout the past decade, CSD was one of the few organizations that made a public stand against the twin evils of corruption and organized crime by vigorously insisting that such serious crimes must be prosecuted effectively. Ever since the Coalition 2000 anticorruption initiative was launched by CSD in 1997, the Center has repeatedly proposed ways of overcoming the negative consequences of corrupt practices on citizens and the economy in its yearly Corruption Assessment Reports, and has partnered with other NGOs and government institutions in order to bring about tangible improvements in this respect.

In the years to come, the Center will continue to focus on unfinished reforms and challenges to the country. In 2010, CSD will be drafting Bulgaria’s first Organized Crime Threat Assessment. CSD will continue to lend its support for the judicial reform process in the country by monitoring the work and strengthening the capacity of the judiciary and law-enforcement in preventing, investigating, and prosecuting corruption and organized crime, including economic crime and related money
laundering. A particular focus will be enhancing the transparency of the energy sector via good governance initiatives, aiming to improve the country’s energy security and environmental policies. CSD will continue monitoring the dynamics and manifestations of the hidden economy in Bulgaria. The Center will be developing a system of key national indicators for the evaluation and impact assessment of Justice and Home Affairs policies and programs, including as they relate to antidiscrimination policies and the integration of immigrants and refugees. Thus, in 2010 CSD will strive to contribute to good governance, economic well-being and social cohesion in Bulgaria and the European Union.

Sofia, January 2010

Dr. Ognian Shentov
Chairman
Part One
Program Reviews
Law Program

2009 Highlights

In 2009, legal, institutional and judicial reforms continued to be priority areas for the CSD Law Program. The activities focused on several major issues.

• **Costs of crime prevention and repression.** The Law Program prepared a study *Bulgarian Penitentiary System in the Perceptions of Penal Actors.* The report outlines as main problems the overcrowding of Bulgarian prisons, poor living conditions, weaknesses in terms of security and safety, and the insufficient financial and human resources.

• **European indicators of public confidence in justice.** The Law Program accomplished a study on the existing indicators of public confidence in justice and the need for and opportunities of implementing such indicators. The main results of the research, coordinated by the Law Program experts, were presented at an international conference in Sofia attended by prominent Bulgarian and foreign criminologists, lawyers and sociologists, and were also published by the European Institute for Crime Prevention and Control, Affiliated with the United Nations (HEUNI).

• **Assistance to victims of crime.** The Law Program completed the study on EU Member States’ legislation, national policies, practices and approaches concerning victims of crime. The results of the research were summarized in a detailed comparative report on victims of crime in the EU and separate country reports on each of the 27 EU Member States.

• **Monitoring of racism and xenophobia and the policies and measures for their counteraction.** For a fourth consecutive year CSD continued to operate the Bulgarian National Focal Point of the Racism and Xenophobia Network (RAXEN) of the EU Fundamental Rights Agency (FRA). In 2009, CSD developed two thematic studies: *National Report on Housing Conditions of Roma and Travelers and National Report on Racism and Ethnic Discrimination in Sport and Preventive Initiatives,* three RAXEN Bulletins and the regular annual report on racism and xenophobia in Bulgaria and the measures for their prevention and counteraction.

• **Monitoring in the area of justice and home affairs.** A network of civic organizations working in the area of justice and home affairs and an electronic database containing information about their activities were developed. In 2009, three more issues of the e-bulletin *Justice and Home Affairs* were disseminated.

• **Cooperation with domestic, foreign and international institutions and organizations.** Furthering CSD’s efforts to establish and strengthen the
ombudsman institution on national and local level, the Law Program developed a report offering a historical overview of the development of the local public mediator institutions in Bulgaria and a detailed analysis of the applicable laws and regulations in this area. CSD participates in the Civic Expert Council with the Supreme Judicial Council’s Professional Ethics and Prevention of Corruption Committee and in the Public Council of Non-governmental Organizations with the Minister of Justice.

I. Assessing the Costs of Reducing and Preventing Crime

The year 2009 marked the successful completion of the project *Crime Repression Costs in Context* implemented by the CSD Law Program in partnership with nine universities and non-governmental organizations from Italy, Spain, Portugal, Germany, Lithuania, Cyprus, Hungary and Turkey. The project’s main objective was to suggest crime repression measures based on assessment of the direct and indirect costs of crime and to formulate strategies for preventing and countering crime, including terrorism and drug related offences.

In the beginning of the year, during the fourth project workshop held in January in Lisbon, the representatives of the Law Program presented a draft version of their report *Bulgarian Penitentiary System in the Perceptions of Penal Actors*. For the purpose of the study the Law Program team did a series of interviews and meetings with representatives of the General Directorate Execution of

![Figure 1. Number of inmates using drugs (1997 – 2008), Bulgarian Penitentiary System in the Perceptions of Penal Actors](image-url)
Penalties with the Ministry of Justice, the personnel of the prisons in Sofia, Plovdiv and Sliven (including prison directors, social workers, doctors, psychologists and guards), probation officers, and experts from the office of the Ombudsman. The report outlines as main problems the overcrowding of Bulgarian prisons, poor living conditions, weaknesses in terms of security and safety, and insufficient financial and human resources.

The study also looks into the problem of drug distribution in prison as well as the penal policies as regards individuals using or addicted to drugs. The major problems in this area, according to the report, are the high percentage of inmates using drugs, the low effectiveness of the measures and activities targeting drug users in prison and the deficiencies in the prevention of importing drugs into prisons and correctional facilities.

Following upon the feedback received at the Lisbon workshop the Law Program team revised and expanded the study. The final version of the report together with updated statistical data were then presented and discussed at the concluding conference, which took place in July in Nicosia (Cyprus). Besides the representatives of the organizations participating in the project, officials from penitentiary institutions from several EU Member States also attended the event.

II. Indicators of Public Confidence in Justice

In 2009, CSD Law Program continued its work on the project Scientific Indicators of Confidence in Justice: Tools for Policy Assessment (JUSTIS) officially launched in March 2008. The project, implemented jointly with universities and non-governmental organizations
from the United Kingdom, Italy, France, Hungary, Lithuania and Finland, is designed to provide EU institutions and Member States with new indicators for the assessment of public trust in justice, which could be used when developing, implementing and evaluating criminal justice policies.

CSD hosted the first international conference under the project, which took place in Sofia on 24 and 25 March 2009. The event gathered representatives of the partner institutions, as well as members of the JUSTIS External Expert Group and other prominent criminologists, lawyers and sociologists from Bulgaria and abroad.

During the conference the participants reviewed the work done so far and the role of the External Expert Group for validating the results achieved. The Law Program experts presented the information they had collected about indicators of public confidence in justice, used by individual countries or international organizations, and the results of a survey done in several Member States about the need and potential application of such indicators.

Other topics discussed at the event were: the German and Swedish experience in measuring confidence in the police and justice (presented by Professor Helmut Kury from the University of Freiburg and Mr. Kjell Elefalk from the Swedish Police respectively), fear of crime as ‘normalization’ of risks (presented by Dr. Jiri Burianek from the Charles University in Prague), and major findings and conclusions in the report of the European Commission for the Efficiency of Justice (summarized by Dr. Stefano Maffei from the University of Parma). Mr. Jim Parsons from the Vera Institute of Justice in the US offered a description on the Vera Indicators Project.

To raise the awareness on the JUSTIS project among the legal community in Bulgaria the conference included a public discussion on the topic hosted by the National Institute of Justice. The event brought together the experts working on the project and senior Bulgarian magistrates and government officials, among them the Minister of Justice Ms. Miglena Tacheva, the Director of the National Institute of Justice Dr. Pencho Penev, and the Deputy Prosecutor General Mr. Hristo Manchev. The coordinator of the JUSTIS project Professor Mike Hough from the Institute for Criminal Policy Research – King’s College, London, and the chair of the External Expert Group Professor Julian Roberts from the University of Oxford explained to the audience the main objectives and expected results of the efforts to develop EU wide indicators for public confidence in justice.

In the course of the year the international team of experts working on the project had three progress meetings for coordinating and planning the joint activities.

At the meeting in Sofia on 23 March the participants reviewed the results achieved so far and discussed the opportunity to include questions of confidence in justice and fear of crime in the upcoming London Metropolitan Police Public Survey and in the European Social Survey. Next steps were also planned, including those related to the dissemination of the results achieved among academics and criminal justice bodies. The progress meeting in Sheffield (United Kingdom), held on 3 June, was devoted to the elaboration of methodology for conducting cognitive interviews, analyzing their results and training for their performance. During the last progress meeting for 2009, organized in Ljubljana (Slovenia) in September, the participants reported
on the successful completion of the research of the existing indicators of public confidence in justice, coordinated by the CSD Law Program. The research included: analysis of the importance of public confidence indicators as tools for development and assessment of policies; overview of European and North American scientific and other literature in the field of confidence in justice and fear of crime; and summarized information about indicators of public confidence in justice applied on national and supranational level.

CSD experts also started conducting a series of cognitive interviews. The latter are designed to assess how different groups of respondents understand, make sense of and select answers to survey questions on confidence in justice. The first round of interviews was done in July – September, the second one followed in November – December. The results of both rounds were described in brief reports.

III. Assistance to Victims of Crime

Continuing its work on the study on EU Member States’ legislation, national policies, practices and approaches concerning victims of crime, which started in June 2008, CSD Law Program elaborated country reports on each of the 27 EU Member States and a detailed comparative report on victims of crime in the EU.

The successful completion of the research involved the participation of experts from all EU Member States. They collected information about their countries filling in a research questionnaire (56 questions divided into five thematic sections) developed in advance by the Law Program team. Parallel to this and in order to make the study as comprehensive as possible, the Law Program also developed a survey questionnaire, which was disseminated among state institutions and non-governmental organizations from the Member States dealing with the provision of assistance to crime victims.

The comparative report elaborated as a result of the research covers several
groups of issues such as: general characteristics of the definition of crime victim; practical aspects of Member States’ legislation on victims of crime; programs and mechanisms for financial support of crime victims; governmental institutions responsible for protecting the interests of victims of crime and their interaction with non-governmental victim support organizations and with other similar institutions from other Member States; non-governmental organizations providing assistance to victims of crime. Detailed country-specific information on these issues is available in the separate country reports, enclosed to the comparative study.

The draft versions of the reports were presented to the European Commission in March and after a series of revisions based on the Commission’s feedback the final versions of the reports were delivered in July.

The successful completion of the study and the effective collaboration of the team of experts from all EU Member States who have done the country research allowed the CSD Law Program to continue working in this area, this time focusing on the compilation of national fact sheets on the rights of victims in EU Member States. Work started in September with the development of a detailed information fiche on the rights of victims in criminal proceedings. After consulting the European Commission the fiche was circulated among the country experts for collecting the necessary information. Meanwhile, the Law Program started the preparatory work for the validation of the fact sheets by the competent institutions of the respective Member States. The elaboration of the fact sheets on the rights of crime victims is being done in partnership with the European Public Law Organization based in Athens (Greece).

IV. Monitoring of Racism and Xenophobia and of the Measures for Their Prevention

For a fourth consecutive year CSD continued to operate the Bulgarian National Focal Point of the Racism and Xenophobia Network (RAXEN) of the EU Fundamental Rights Agency (FRA).

In 2009, upon assignment by FRA, CSD developed two thematic studies: National Report on Housing Conditions of Roma and Travelers and National Report on Racism and Ethnic Discrimination in Sport and Preventive Initiatives. Both studies involved the collection of statistical data and the carrying out of interviews with public administration officials and representatives of non-governmental organizations. The FRA published the report on the housing conditions of Roma and Travelers in October 2009. Parts of it were also incorporated in FRA’s Comparative Report on Housing Conditions of Roma and Travelers in the European Union published the same month. The report on racism and xenophobia in sports will also feed data into a comparative report on the topic covering all EU Member States.
CSD provided FRA with three more RAXEN Bulletins including up-to-date information about newly published analyses and reports on racial discrimination, amendments to the legal framework and important events in the area of equal treatment and fight against racism and xenophobia.

Following the elections for Members of the European Parliament CSD developed and presented to the FRA a rapid response report on the presence of racism and xenophobia in the election campaign in Bulgaria. The report describes the cases of racist and ethnic propaganda during the campaign and evaluates the attitudes expressed by major political parties as regards racial and ethnic equality.

In the end of the year the Law Program team prepared and presented to FRA the regular annual report on racism and xenophobia in Bulgaria and the measures for their prevention and counteraction. Together with the traditional areas legislation, racist crime and violence, healthcare, education, employment and housing, for the first time the report included information about the participation of minorities in public life.

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As in previous years, in 2009 the CSD Law Program continued to cooperate with a number of domestic, foreign and international institutions and organizations.

Furthering its efforts to establish and strengthen the ombudsman institution on national and local level, a process initiated by CSD back in 1998, in the end of 2008 the Law Program started researching the legal basis governing the operation of local public mediators with the purpose of recommending changes for its improvement. The results of the study together with a set of recommendations for improving the legal framework were summarized in a report, presented in February 2009 at a working meeting attended by the national ombudsman and local public mediators from throughout the country. The report offers a historical overview of the development of the local public mediator institution in Bulgaria and an analysis of the laws and regulations in force. It also identifies the main deficiencies of the legal framework and suggests concrete recommendations for its improvement. Based on the research of the legal framework, and the analysis of the public mediators practice, the Law Program team concluded that the legislation governing the operation of local mediators needed to be further expanded. On the one hand, this is necessary because laws, unlike secondary legislation, are more resistant to frequent amendments, which is vital for the sustainability of the local public mediator institutions. On the other hand, the law is the only channel to introduce a minimum set of uniform standards as regards the establishment and operation of these institutions and thus overcome the significant variations existing currently in the different municipalities.


The long-lasting and successful cooperation between CSD and the Ministry of Justice also continued in 2009. In
acknowledgement of this fruitful partnership on 13 July 2009 CSD received a special award from the Minister of Justice on the occasion of the Ministry’s 130th anniversary.

The Law Program Director Dr. Maria Yordanova was invited by the newly elected Minister of Justice to represent CSD in the Public Council of Non-governmental Organizations with the Minister of Justice. The council’s objective is to contribute to the successful cooperation between the Ministry and the civil society in view of formulating and achieving the institution’s priority goals.

Building upon the established partnership between CSD and other Bulgarian non-governmental organizations working in the area of justice and home affairs, representatives of the Law Program took part in a series of public events (conferences, round tables and seminars) devoted to various pending judicial reform issues. CSD also joined the group of organizations, which in May 2009 held a press conference on the recruitment policies in the judiciary. The press conference was followed by an open letter to the Prime Minister, provoked by the increasing need of fundamental long-term changes in the operation of the Supreme Judicial Council and of the judiciary as a whole. The CSD initiative to enhance the capacity of Bulgarian civic organizations to exercise monitoring in the area of justice and home affairs also continued in 2009. In the framework of this initiative, a number of non-governmental organizations working on justice and home affairs issues were identified and an electronic database with information about their activities was developed.
This was done on the basis of a system of criteria and special evaluation forms, both elaborated by Law Program experts. The electronic database is a dynamic tool allowing both regular update and addition of new organizations. The database was the starting point of the development of a network of civil organizations active in the field of justice and home affairs.

To enhance the capacity of the organizations included in the network their representatives were invited to take part in the seminar Public Opinion and Civic Control on Justice featuring as guest speaker Professor Julian Roberts of the Centre for Criminology, University of Oxford. During the discussion, which took place on 26 March 2009, the participants reached the conclusion that Bulgaria as well as many other EU Member States needs a system of indicators to measure public confidence in justice. Such indicators might serve to both formulate long-term policies and evaluate the impact of their realization.

To keep the network of organizations informed and to acquaint state institutions with the activities of the civic sector in the area of justice and home affairs the Law Program continued to compile and disseminate the e-bulletin Justice and Home Affairs. After the dissemination of the first issue in November 2008, three more bulletins followed in 2009 (in February, April and July). The bulletins offer news and documents related to the European and domestic policies in the area of justice and home affairs as well as information about ongoing and upcoming activities of the organizations included in the network.

The CSD Law Program continued its cooperation with a number of foreign and international organizations in 2009. Members of the Law Program team took part in numerous events on issues such as prevention of and fight against corruption, judicial reform, capacity building for institutions responsible for countering crime, etc.
Economic Program

2009 Highlights

In 2009 the Economic Program focused its efforts on two thematic areas: (1) hidden economy, anticorruption and good governance, and (2) innovation, knowledge economy and competitiveness.

- **Hidden economy.** The *Hidden Economy Index* for 2009 was updated. CSD organized two round tables, dedicated to the new trends and methods for assessing the hidden economy, as well as the policies, necessary for limiting its negative impact during a crisis.

- **Anticorruption.** In collaboration with other representatives of the NGO sector, the Center for the Study of Democracy elaborated an analysis on the implementation of the Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006-2008.

- **Money laundering.** In 2009 experts from the Economic Program initiated the development of a Money Laundering Investigations Manual. A working group, including all stakeholders and relevant institutions, is elaborating the manual. It is designed to support the practical work of law enforcement in the country in tackling corruption and organized crime.

- **Mobilizing civil society to prevent and detect conflicts of interest.** In 2009 the Economic Program of the Center for the Study of Democracy expanded its work on the disclosure and prevention of conflicts of interest at the highest levels of power.

- **Innovation, knowledge economy and competitiveness.** CSD’s Economic Program participated in the writing and presentation of the annual report *Innovation.bg 2009: The Bulgarian Innovation System in a Time of Global Economic Crisis*. The report analyses the state of the national innovation system and gives recommendations for improving the innovation potential of the Bulgarian economy. In 2009 with the cooperation of the Center for the Study of Democracy Bulgaria was included for a fourth time in the most prestigious annual competitiveness ranking – IMD World Competitiveness Yearbook 2009. This year Bulgaria was ranked 38th among 57 economies.

- **Good governance in the energy sector – diversification and security.** The Economic Program prepared recommendations in support of public policies in the area of energy regarding: (1) diversification and security of the Bulgarian energy sector; (2) the Bulgarian Energy Strategy till 2020; (3) the general regulatory framework of EU green policies; (4) current issues and challenges related to the high-level meeting on climate issues in Copenhagen
I. Hidden Economy, Anticorruption and Money Laundering

In 2009 the Economic Program continued its work on monitoring policies in the areas of hidden economy and anticorruption. The Center for the Study of Democracy, organized a seminar on the new trends in measuring the hidden economy during economic crisis (27 February 2009). The objective of the seminar was to gather expert opinion, information and materials for a forthcoming publication on the hidden economy, as well as for future public discussions. CSD experts presented the Hidden Economy Index and the possibilities and limitations of this particular approach in assessing the phenomenon.

New challenges in this regard include:

- Developing a system of indexes and key indicators by which to monitor and assess not only the manifestations of the hidden economy, but also the effectiveness of public policies and programs aimed at its control;
- Measuring the degree of achievement of the objectives set by international and national institutions and the concrete results in limiting the hidden economy;
- Improving the ability to make international comparisons and to monitor the dynamics of hidden economy in various sectors, thematic and territorial scope.

Mr. Ruslan Stefanov, Coordinator of the Economic Program, Center for the Study of Democracy
Experts also presented the elements of successful public initiatives for limiting the hidden economy – the introduction of compulsory registration of labor contracts in 2003, coupled with increased compliance control by the Ministry of Labor and Social Policy, as well as with efforts at reducing the hidden economy in other policy areas. It is necessary to examine hidden economy at sectoral level, its networks and functional mechanisms. A negative trend was also outlined – sudden and politically motivated personnel changes in key control agencies and the respective decline of their control capacity. CSD experts highlighted the necessity of legal amendments to better regulate the financing of political parties, which would put downward pressure on hidden economy financial flows. The participants put an emphasis on the importance of the relationship between good corporate governance and transparency of private companies.

The Center for the Study of Democracy and Friedrich Ebert Foundation organized the annual round table *The Hidden Economy in Bulgaria: Policy Responses to the Economic Crisis* (10 December 2009). During the event experts from the Economic Program presented the updated indexes of the hidden economy for 2009 and commented on the efficiency of public policies to reduce its manifestations in Bulgaria. Participants at the round table discussed the policies for overcoming the economic crisis and for administrative reform and their impact on the hidden economy.

**Figure 2. Hidden Economy Index 2002 – 2009**

![Graph showing Hidden Economy Index 2002–2009]
According to the data in 2009 the Hidden Economy Index for the business sector and the unreported economic activity of the population, displayed two opposing trends. While the business index showed an overall decline of gray practices over the previous year, the value of the population index increased. This seemingly contradictory dynamic could be explained by the effects of the crisis and the strict measures taken by the government to counter the hidden economy in the second half of 2009 – measures targeted mainly at hidden business turnover. In the short run the effects of the crisis weighed in a different way on the population and the business, which led to increased hidden turnover and employment reported by the population and reduced hidden economy reported by the business.

The transition from formal to informal economy was associated with much less cost, i.e. was easier for the population than for the business.

Representatives of the Center for the Study of Democracy took part in a national round table (31 March 2009), organized by the Council of Ministers to review progress in the implementation of The Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006 – 2008. CSD experts presented the main conclusions of an analysis on the coordination and control activities of the Commission on Prevention and Counteraction of Corruption (CPCC) during the implementation of the Strategy. According the analysis during the period 2006–
2008 the Commission has drawn regular reports for the implementation of anticorruption measures. These reports, however, were mainly descriptive and had limited analytical or assessment functions. The experts highlighted the importance of regular monitoring on the efficiency of anticorruption measures and the degree of implementation of the Strategy. Anticorruption priorities and policy are still not concrete enough and CPCC cooperation with NGOs is implemented sporadically. The experts recommended an increase of the Commission’s administrative capacity, the establishment of an independent Secretariat to the Commission, securing its activity with additional funds and an increase of the publicity of its anticorruption measures.

The representatives of the NGO sector presented their analyses and comments on the implementation of the Strategy for Transparent Governance and Prevention and Counteraction of Corruption for the Period 2006-2008. According to them the majority of the anticorruption measures in the strategy are implemented only formally. In this context the participants recommended the number of measures to be reduced and their expediency and effectiveness increased in the next strategy. They also recommended greater consistency of the measures, increase of the cooperation between the central and local administrations, and more efficient management of the information coming from external whistleblowers.
In 2009 the Economic Program initiated a project to develop a *Money Laundering Investigations Manual*. In order to facilitate the project implementation, CSD formed a task force including representatives of the Center, the Supreme Prosecutor's Office of Cassation, the National Investigation Service, the State Agency National Security, the Ministry of Interior and the Commission for Establishing of Property Acquired from Criminal Activity. The manual provides guidance on topics such as: money laundering methods most often employed by criminals, national and international legislation, incl. application of the Law on Forfeiture to the State of Property Acquired through Criminal Activity, methods for preparing and implementing international cooperation in financial intelligence, collection and analysis of information on money laundering, and judicial practices. The manual outlines some real-life examples of money laundering and their investigation in Bulgaria.

In 2009 the Economic Program of the Center for the Study of Democracy extended its work on the topic of disclosure and prevention of conflicts of interest at the highest levels of power. In addition to the analytical expertise and provision of policy recommendations, this year CSD has also substantially committed to advocacy. As pointed out in CSD’s latest corruption assessment report *Crime without Punishment*, with the enactment of the Law on Preventing and Detecting of Conflicts of Interest a policy coalition emerged trying to sabotage the implementation of the law. The Center for the Study of Democracy succeeded in mobilizing civil society organizations, media and political support and prevented the watering down of the law. One of the main outreach instruments of this mobilization effort was Facebook (www.causes.com/coi). In 2009 the Economic Program continued its work on the analysis of civil society capture by politicians and senior administrators and of changing market conditions for NGOs in Bulgaria. CSD prepared a specialized program for capacity building of journalists and NGOs in order to assist them in exposing conflicts of interest in local governments. The program will be implemented during the first half of 2010.

II. Innovation and Knowledge Economy

The Economic Program continued to support the development of policies in the area of innovation and knowledge economy. Experts from the Economic Program took part in the preparation of the report *Innovation.bg 2009: The Bulgarian Innovation System in a Time of Global Economic Crisis*, which analyses the state of the national innovation system and gives recommendations for improving the innovation potential of the Bulgarian economy. In 2009 the report focused on the global economic crisis. The authors underlined that Bulgaria needs to rethink its economic policy and adopt an integrated strategy.
for economic growth based on innovation, technological development and science. The report *Innovation.bg 2009* aspires to provide a reference framework and suggestions for the implementation of such a strategy and points out that Bulgaria needs to use the crisis as an opportunity to mobilize resources for change and economic revival on the basis of new sources of growth.

On 29 April 2009 the Center for the Study of Democracy and the Applied Research and Communications Fund organized a round table on China’s Innovation System: State and Perspectives. Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy and Mr. Zhang Wanxue, Ambassador of People’s Republic of China in Bulgaria made the opening remarks at the event. Mr. Zhang Wanxue underlined the importance of the high-technology industry zones and the commercial application of the scientific inventions and expertise in China at the present time, as well as in the past. Mr. Marin Tinchev, Cofounder and Director of Sinova Advisors and PhD candidate at the Tsinghua University in China presented a bird’s eye view of China’s innovation system. Mr. Tinchev highlighted the fast rate at which China develops its R&D. He described the history and evolution of the Chinese innovation system. He also pointed out that currently the Chinese technology focused universities and innovative entrepreneurs are the leaders in the development of the national innovation environment.

### III. Strengthening Sustainable Development in Bulgaria: Good Governance in the Energy Sector

In 2009 the Economic Program focused its efforts on the problems of the Bulgarian energy sector. The latter is of strategic importance for the country’s economic development and national security, especially in the context of growing EU and Balkan markets. Experts from the
Economic Program prepared a policy brief on the Bulgarian energy sector Better Governance for Sustainable Energy Sector of Bulgaria: Diversification and Security. The policy brief points out that recent shifts in the world’s economy, policy, regional dynamics, and geo-political situation are the driving factors necessitating the introduction of major reforms focused on a transparent, diversified, efficient, and market based energy sector in Bulgaria. The country needs to actively participate in the European and international energy debate and to address the whole complex of energy related policies. As possible recommendations for actions to overcome the identified challenges the authors of the policy brief suggest:

- Review and adoption of the National Energy Strategy 2020;
- Ensuring energy diversification;
- Increasing transparency and opening up to all interested investors;
- Establishment of a decision-making process of based on data;
- Taking a proactive stance on EU initiatives.

**Figure 3. Necessary changes in the methods of evaluation and decision-making regarding major energy projects and the overall strategy of the Bulgarian energy sector development**
The policy brief was presented on 5 October 2009 during a round table at the Bulgarian Parliament, dedicated to energy diversification and energy security. The round table was opened by Dr. Ognian Shentov, Chairman of the Center for the Study of Democracy, Ambassador Tøve Skarstein, Royal Norwegian Embassy in Bulgaria and Ambassador John M. Ordway, Chargé d’Affaires at the US Embassy in Bulgaria. In his opening remarks, Dr. Shentov called for an open dialogue about the process of energy policy decision-making. Ms. Tøve Skarstein, Ambassador of Norway to Bulgaria, highlighted Norway’s readiness to work with Bulgaria on developing knowledge-based strategic approaches to good governance and sustainable energy, based on transparency and alternative scenarios for reaching the country’s energy goals. Ms. Skarstein highlighted the need of prior sober assessment of the social, economic and environmental costs of each scenario, taking into consideration the interests of future generations. Ambassador John M. Ordway, Chargé d’Affaires at the US Embassy in Bulgaria stressed on the importance of energy security and diversity in terms of fuels and suppliers. According to him every monopoly, including in the energy market, would create problems with energy supply and would limit competitive-based pricing power.

Mr. Edward Chow, Senior Fellow at the Energy and National Security Program, Center for Strategic and International Studies, Washington DC pointed out that
currently the new Bulgarian government, not unlike the U.S. government, is presented with the opportunity to rethink and redirect its energy policy. The energy security is a public good and the government should protect the interests of society. Ms. Tzvetelina Borislavova, Chair of the Supervisory Board of CIBank, noted the growing role of civil society and NGOs in energy policy. She also stressed that it is necessary for Bulgaria to coordinate its efforts and ambitions with those of its European and global partners: improving energy efficiency, flexibility, development of new technologies, security of supply and compliance with environmental standards. Ms. Borislavova called for the development of gas infrastructure and the use of biomass for electricity production. The Swedish Ambassador, Mr. Paul Beijer, the country holding the rotating EU presidency, made the closing remarks at the event. He presented the EU perspective on energy policy. According to Ambassador Beijer the energy policy of each member country should have two focus areas: establishment of an early warning system to support risk management, and improving the internal energy market mechanisms. He stressed that the increase of energy efficiency will directly contribute to the increase of energy security.

Experts from CSD’s Economic Program took part at the round table The Energy Strategy of Bulgaria 2020 organized on 23 November 2009 by the Parliamentary Committee on Economic Policy, Energy and Tourism. During the event they presented a second policy brief on Energy Strategy of Bulgaria 2020: A Better Governance Perspective. Mr. Ruslan Stefanov, Director of CSD’s Economic Program pointed out that the achievement of a transparent and effective governance in the energy sector needs better coordination between government institutions and relevant strategic documents, greater transparency of the rights and obligations of public authorities, use of independent long-term forecasts and scenarios based on regularly updated and reliable data. The strategy should include a system of performance indicators and mechanisms for its review. It should also set a framework for development objectives and the decision-making process.

In addition to the above mentioned publicly released reports in 2009 CSD prepared two more reports on the future of energy policy in Bulgaria. The first one reviews the overall regulatory framework of EU green policies in relation to the achievement of sustainable development. The second one examines the current issues and challenges related to the meeting on climate change in Copenhagen in 2009 and the possible positions and options for the European Union and Bulgaria.

The report Copenhagen: Stakes and Options for Bulgaria presents the current Bulgarian position at the international negotiation table and the major cleavages that obstruct real chances of an accord beyond the Kyoto provisions to be reached at Copenhagen. It subsequent-
Table 1. Bulgarian instruments for meeting obligations on climate change

<table>
<thead>
<tr>
<th>Type</th>
<th>Instruments</th>
<th>Concrete steps or opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>Laws and ordinances</td>
<td>Multilateral and bilateral agreements; EU legislation and corresponding national climate change legislation</td>
</tr>
<tr>
<td>Financial</td>
<td>Incentives and funding opportunities for promoting carbon cuts among economic agents and improving energy efficiency</td>
<td>Agriculture Fund, Energy Efficiency Fund, EU Structural Funds, Kyoto Mechanisms (Joint Implementation and Emission Trading)</td>
</tr>
<tr>
<td>Publicity</td>
<td>Education and public awareness</td>
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The analysis touches upon Bulgaria's participation in the process, proposed targets and achievements, best options for Bulgaria on the forthcoming round of negotiations as well as perspectives for Bulgaria's participation in shaping the EU common position and thus the overall global accord.

Figure 4. Key EU Documents on the introduction of renewable energy sources (RES)

- **White paper on renewables (1997)**: Share of RES – 12% by 2010
- **Communication of the Commission on renewables (2001)**: Electricity from RES – 22% by 2010, Biofuels used for transport – 5.75% by 2010
- **Renewable energy roadmap (2008)**: Electricity from RES – 20% by 2020, Biofuels used mandatory – 10% by 2020
The report *The Green Element in European Sustainable Energy Policies* reviews the historical road to and the concrete dimensions of European regulations related to energy and environmental protection. It is a first endeavour in series of papers to examine EU green legislation, its incorporation in national laws, translation of these measures into rules and practices directing the real state of organization of energy sectors in member states, good practices, and mostly failures in the process of legal adoption and circumvention of common rules, notably in the case of Bulgaria.

As a result of the talks that followed and presentation of analysis, the Minister of Economy, Energy and Tourism invited CSD experts to participate in a Working Group on the elaboration of indicators for transparency the national energy strategy. The chair of the Working Group on Transparency of the European Nuclear Energy Forum invited CSD as an independent observers to the group.

**IV. Competitiveness**

In 2009 with the cooperation of the Center for the Study of Democracy Bulgaria was included for a fourth time in the most prestigious annual competitiveness ranking – IMD World Competitiveness Yearbook 2009. Bulgaria was ranked 38th among 57 economies. Thus Bulgaria is ranked one place higher than 2008, outperforming countries such as Spain, Brazil, Hungary, Turkey, Russia, Italy, Romania, Greece, Croatia and Ukraine. Bulgaria is rated highest on economy efficiency (after dropping from 31st place in 2007 to 38th in 2008, in 2009 it goes up to 26th place). Government efficiency is ranked next (it takes 28th place com-

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**Figure 5. Competitiveness landscape of Bulgaria, World Competitiveness Yearbook, IMD, 2008 and 2009**

![Competition Landscape Graph](attachment:image.png)
pared to 38th place in 2007 and 29th in 2008). The only noticeable downturn is in the area of infrastructure – Bulgaria is rated 43rd among the 57 competing economies (two places lower than last year). Business efficiency, however, is assessed lower than the other three indicators, rating 47th. Nevertheless, it has improved compared to the 54th place in 2008. It should be noted that business efficiency is considered a crossing cutting point of the other three groups of indicators and it depicts the ability of the economy to make a systematic transition towards higher competitiveness.

The Yearbook presents five major challenges in front of Bulgaria in 2009:

- Overcome political instability and uncertainty in the run up and after the general parliamentary elections in July 2009;
- Improve the rule of law to curb gray economy, corruption and organized crime;
- Boost public expenditure efficiency and strategic policy planning and accountability;
- Streamline public administration and public service delivery, via aggressive e-government applications;
- Reform economic policy and increase public spending towards SMEs, research, technological development and innovation, and ICT.

Experts from the Economic Program of the Center for the Study of Democracy took part in the elaboration of the fourth economic report, commissioned by the President of Bulgaria: The Global Financial and Economic Crisis and Bulgaria, Chapter 4: Bulgarian Competitiveness in the Light of the Global Financial and Economic Crisis. The chapter cites data from the IMD World Competitiveness Yearbook and points out the Bulgarian competitive advantages and disadvantages. The authors make recommendations for improving the competitive position of the country in the short and long term. The report provoked wide public debate and CSD Chapter 4 was cited as one of the successful cornerstones of the report.
2009 Highlights

Since mid-2009 the Sociological Program has resumed its activity as an autonomous unit within the Center for the Study of Democracy focusing its activities on research projects of a more academic nature and the analysis of socio-economic phenomena at the national and/or European level. In this context, in its activities the Sociological Program has emphasized several key priorities:

• Evaluation of public policies and programs. Development of a methodology and indicators for monitoring and evaluating policies and practices in several key areas of socio-economic life: justice and home affairs, public procurement, tenders for EU structural funds, etc. Publication of a manual Monitoring and Evaluation of Public Policies and Programs.

• Policies for the integration of immigrants and refugees. CSD has completed an analysis of the information needs related to the policies and measures for the integration of third country nationals and proposals for their optimization. The study included the development of a methodology and indicators for the evaluation and impact assessment of the results of policies for the integration of immigrants as well as conducting evaluations and social impact assessments of integration policies and their effects upon third country nationals and society as a whole.

• Science communication in society. Conducting research in the field of science communication and technological development. Theoretical and practical training of Bulgarian and European scientists in the field of science communication conducted by CSD experts.

• Enhancement of the methodological and expert capacity of the Sociological program in several fields:
  - Monitoring and estimating the hidden economy;
  - Conducting victimization and criminological research;
  - Foresight methods;
  - Advocating civic activism and responsible social policies;
  - Promoting human rights and the protection of vulnerable groups.

I. Evaluation of Public Policies and Programs

The Sociological Program of the Center for the Study of Democracy has been building its methodological and expert capacity for carrying out social impact assessments and evaluations of public policies and programs at the national and EU levels. Over the past couple of decades, the theory and practice of program evaluation and impact assess-
ment has been developing very dynamically in a variety of territorial and institutional contexts. Conducting social impact assessments and program evaluations has become well established and prestigious type of consulting service and has been informed by a growing body of theoretical and methodological research literature. International institutions and organisations (the European Commission, OECD, IBRD, UNDP and UNICEF, etc.), national governments and civic organisations more and more actively utilize program evaluations and impact assessments of a variety of types and scope.

The manual *Monitoring and Evaluation of Public Policies and Programs* (Methodological Guidebook: Part I) was prepared for publication in 2009.

The evaluation of public policies and programs and their social impact is an instrument of good governance in the exercise of political, economic and administrative authority at all levels. It needs to be considered an indispensable component of the process of decision-making and management of the whole cycle of designing, implementing and evaluating of public policies and programs. This enhanced role for social impact assessments and program evaluations as key features of good governance, and their embeddedness in the whole process of implementing public policies and programs, will present CSD’s Sociological Program with the opportunity to offer high quality consulting services. This is also complementary to the activities of the Economic Program as they relate to research into the theory, challenges and practice of good governance, as well as to the Law Program’s efforts to design indicators evaluating levels of trust in the judicial system and progress in achieving key national objectives in the field of justice and home affairs.

II. Policies for the integration of immigrants and refugees

In 2009, the Sociological Program, with funding provided by the European Fund for the Integration of Third Country Nationals, developed a methodology for the monitoring and evaluation of integration policies and practices in the country as well as a model for an integrated information system for immigrants, third country nationals, and their integration. In this manner, CSD contributed to the successful implementation of Bulgaria’s National Strategy on Migration and Integration for the 2008-2015 period, and the practical introduction of the Common Basic Principles for Immigrant Integration Policy in the European Union. A review of existing tools for monitoring policies and practices relating to third country nationals and current methods for their evaluation was completed. Suggestions are being made regarding enhancing capabilities for collecting adequate (in volume and quantity) information on integration measures and their effects on beneficiaries and the society as a whole. A qualitative survey was con-
ducted which aim was to determine, analyze and evaluate the needs, problems, expectations and fulfillment levels of the immigrant population.

A quantitative survey was also completed the aim of which was to inquire as to the extent to which Bulgaria’s society is informed regarding the integration of third country nationals, as well as regarding attitudes and reactions towards the integration policies being implemented in the country. The results of the survey demonstrate the recipient society strongly differentiates among various groups of immigrants on the basis of their ethnic origins.

Policies enjoying widest support are those aiming to encourage immigrants to adopt societal values as they relate to the country’s linguistic, cultural and historical heritage. The overwhelming majority of respondents give positive responses when asked whether attending Bulgarian language courses and becoming acquainted with Bulgaria’s history and culture constitute appropriate integration measures with respect to immigrants, while they also approve of immigrant children attending Bulgarian schools. There is a need for information campaigns popularizing policies and measures promoting the rights of immigrants and protecting them from discrimination.

A model for an integrated information system and database was developed, which contains specific indicators regarding the target group of the country’s integration policies with respect to immigrants from third countries, taking into account the needs of the interested parties in charge of implementing policies and measures with respect to
third country nationals. Putting this model into practice would contribute to ensuring an information environment which would serve the purpose of optimizing and periodically updating Bulgaria’s integration policies, as well as of monitoring compliance with and the effects of integration measures.

As a continuation of its efforts in this priority field, the Sociological Program is working on the project Developing Indicators and Methods for the Evaluation of Goals and Measures Related to the Integration of Third Country Nationals. The project aims at developing indicators for evaluating integration policies and practices, taking into account European best practices and the needs of national and local institutions charged with formulating and implementing integration measures in the country.

### III. Science communication in society

In an environment of globalising and fast-developing knowledge economies and societies, the creation, exchange and dissemination of knowledge has become a priority for social science research. In this context, the Sociological Program has been active in research and education initiatives with respect to the communication of developments in science and technology. Other factors have been conducive for adopting this priority, such as CSD’s practical experience in the field and established partner contacts in the largest network of experts.

and institutions active in the field, as well as its participation in several international initiatives:

- Training for European scientists (ESConet Trainers – Science communication training for Europe’s scientists);
- Training seminar for young scientists Science and Society in Dialogue: Popularizing Scientific Results;
- European Science Communication Workshops;
- Changes in labor organization and social restructuring in knowledge society (WORKS).

### IV. Enhancing the Methodological and Expert Capacity of the Sociological Program

In partnership with Transcrime, an Italian NGO, the Sociological Program conducted a research project, funded by the European Commission, to design a European business victimization survey. The project’s goal is to design a unified EU-wide methodology to evaluate the levels and effects of crimes against businesses. In this manner, the project aims to create a
reliable instrument for the collection, analysis and comparison of information on economic crime and business victimization in the European Union (all 27 EU Member States as well as the Candidate Countries – Macedonia, Turkey and Croatia). The project methodology contributes to the following:

- Meeting the needs of EU policy making, and in particular as it relates to implementing the EU Action Plan and the task of measuring the spread and structure of crime victimization in the business sector;
- Comparing data from crime victimization in EU Member States as well as the Candidate Countries;
- Standardizing the process of analysing the characteristic features of economic crime in the EU, where specificities in business structures and practices, as well as cultural and linguistic differences, are of great significance;
- Proposing methods and indicators for measuring the costs and consequences of crime victimization in a variety of contexts.

The Sociological Program provides expert advice (primarily of a methodological and analytical nature) in designing research methodologies and instruments, the collection and analysis of data, and applying state-of-the-art research methodologies and instruments. In 2009 the Sociological Program provided such expertise in the implementation of several research projects.

Specific focus of the cooperation between the Sociological program and the Applied Research and Communications Fund was the development and implementation of foresight methodologies with respect to social impact assessment of policies and programmes in the field of science and technological innovation.
European program

2009 Highlights

In 2009 the activities of the European Program were focused on two primary issues: 1. research on the dynamics of conventional and organized crime; 2. necessary reforms in the security sector and crime prevention.

• Crime prevention and monitoring. For a sixth consecutive year, the European Program carried out the study of crime trends in Bulgaria. The results and conclusions were published in the Conventional Crime in Bulgaria: Levels and Trends report and were presented at a seminar.

• Security sector reform. CSD analyzed the current situation in the security sector and outlined necessary reforms. The findings of the analysis were presented in a report at a round table discussion.

• Prevention of organized crime. The European Program continued to exchange best practices with European partners aimed at creating the pre-conditions for applying advanced European methods for organized crime threat assessment.

• Broadening the scope of research. In 2009 CSD carried out a study on the link between organized crime and corruption in the 27 EU Member States and drafted a report summarizing the findings and key recommendations.

I. Crime Prevention and Monitoring

The study of crime trends in Bulgaria is among the key areas of expertise and long-term priorities of the European Program. In May 2009 the program presented the results and conclusions of the annual study of crime trends in Bulgaria at a seminar entitled “Conventional Crime in Bulgaria in 2007 – 2008: Implementing Good Practices in the Field of Monitoring of Justice and Home Affairs”.

Mr. Tihomir Bezlov, Senior Analyst at the Center for the Study of Democracy presented the dynamics of conventional crime for the period 2007 – 2008, comparing data from the National Crime Survey (NCS) with official police statistics. The survey was carried out by CSD for a sixth consecutive year, relying on methodology used by the United Nations Interregional Crime and Justice Research Institute (UNICRI) in the International Crime Victims Study (ICVS) and the European Union International Crime Victims Study (EUICVS). The reasons for the gap between the official statistics and those of the victimization surveys are tied to factors that influence the dynamics of conventional crime: Bulgarian citizens rarely report crime to the police and the average level of crime notifications with the police in Bulgaria are much lower than those in other European countries. Strengthening of civic and administrative oversight over the police and expanding
activities aimed at increasing public trust in the institution are necessary steps towards reversing this negative tendency. According to CSD analysis the economic crisis will influence negatively the level of conventional crime in the country.

Mr. Pavlin Dimitrov, Chief Commissioner at the Ministry of Interior outlined the institution’s priorities to enhance preventative measures and increase the qualification and motivation of Ministry of Interior personnel. Mr. Dimitrov commended the good partnership between the Ministry of Interior and the Center for the Study of Democracy and stated that the independent collection of crime victimization data is beneficial to the ministry and to society as a whole.

The participants at the seminar discussed different approaches for analyzing and combating conventional crime in the country and the need for modernizing the police force. The participants pointed out that some of the identified tendencies are early warning signals of the aggravation of the economic situation in the country.

In the report Conventional Crime: Levels and Trends published in Bulgarian by CSD in 2009 Dr. Emil Tsenkov, Senior Fellow at CSD analyzed the most sensitive from a citizen’s perspective occurrences of conventional crime. Victimization surveys and the analysis of conventional crime reveal that the levels and trends in conventional crime determine the overall criminal situation in the country. The need for increasing law enforcement effectiveness to combat convention crime has become one the gravest social problems and one of the most important priorities after
Bulgaria’s EU accession. In this context, specialized state institutions can no longer monopolize the assessment of the level of conventional crime and of the activities of the police. The dynamics of conventional crime needs to be assessed according to recognized and transparent standards, criteria and methods.

II. The Police in Modern Society: The Necessary Reform in Bulgaria

On August 25, 2009 CSD and the Parliamentary Internal Security and Public Order Committee organized a round table dedicated to home affairs issues, the current state of the national police and the necessary reforms in order to increase public trust in the force.

In his introductory speech, Dr. Ognian Shentov, Chairman of CSD remarked that police reform needs to be part of the overall reform of the security sector in Bulgaria. There are three key preconditions for success: political will for change, active civil society and the involvement of Bulgaria’s Euro-Atlantic partners. In Dr. Shentov’s view, for the first time in a long while all three pre-
requisites are now present in Bulgaria. Ambassador John Ordway, Charge D’Affairs ad interim at the Embassy of the United States in Bulgaria underlined that citizens’ trust in the police is of key importance to the results of law enforcement authorities. With regards to the role of transatlantic partners, Ambassador Ordway noted that the technical assistance and operational cooperation provided by the US to Bulgaria had so far yielded positive results, especially in the field of combating drug trafficking.

Mr. Chavdar Chervenkov, Director of the European Program at CSD presented the report *Police in Modern Society: the Necessary Reforms in Bulgaria*. The conclusions on the state of the security sector and the Bulgarian police are based upon an analysis of Eurostat data, official statistics of the Ministry of Interior and CSD victimization surveys for the past two years. Although statistical data should be interpreted with caution the comparison of key indicators of the efficiency of law enforcement in
Bulgaria and the EU reveals a disturbing discrepancy between the number of policemen and their efficiency in Bulgaria and the same indicators for other EU Member States. For instance, in 2007 the crimes registered in Bulgaria were 8 times less than those registered in Sweden, 5.4 times less than those registered in Belgium, 4.5 times less than the levels or registered crimes in the UK, 4 times less than in Austria, and 2.4 times less than the respective levels in Hungary.

At the same time, the number of employees in the Bulgarian law enforcement is higher than the EU average. It is also higher than the number of police officers in older EU Member States.

The results of CSD victimization surveys also reveal unfavorable trends. Analysis of the data reveals that the Bulgarian society remains distrustful towards law enforcement and skeptical towards the results of combating crime in the country. Many citizens do not seek collaboration with the police in registering or preventing crime. The lack of citizens collaboration, combined with police filters in registering a crime, give a distorted picture of the level of crime in the country.

This presents serious risks to police-citizens relations and affects negatively the state of security in the country as a whole. The report formulates several recommendations to the different stages of police reform:

- drafting a White Paper on Domestic Security, as part of a new National Security Strategy;
Figure 7. Number of police officers per 100,000 inhabitants (2007) (for the Bulgaria – total number of the police officers – 32,000) (Eurostat)

![Bar Chart: Number of police officers per 100,000 inhabitants (2007)]

Figure 8. Percentage of crime registered with the police (in %)

![Bar Chart: Percentage of crime registered with the police (in %)]
• incorporating police activities into the overall government policy through the development of national system of indicators for effectiveness assessment;
• reassessing security policies, establishing a new method for financing the system of domestic security.

The main objective of the reform should be to increase transparency of the system, to enhance instruments for public control and to bring the security services closer to the citizen as the end consumer.

According to the Deputy Chief Prosecutor Mr. Valery Purvanov, the main reason for the discrepancy between the statistics of the Ministry of Interior and the Chief Prosecutor’s Office is the malfunctioning of the Common Integrated Information System between law enforcement and the judiciary. There is an imminent need for technical modernization of the police and a significant improvement of its quality of work, as the low quality of collected evidence is related to low effectiveness of the judicial system.

Around 600,000 criminal proceedings were terminated during 2008 for the reason of unknown perpetrator and expired statute of limitation and another 600,000 proceedings are likely to be terminated in 2009 for the same reason.

According to Mr. Tzvetan Tzvetanov, Deputy Prime Minister and Minister of the Interior, the main goal of the reform of the Ministry of the Interior is to regain the citizens’ trust in the system. After the initial measures to improve the coor-
dination between the law enforcement and the judiciary are put in place, the next step would be to establish an integrated information system. According to Mr. Tzvetanov broad political consensus, maximum transparency and direct participation of civil society are prerequisites for the success of the reform.

III. Combating Organized Crime

As part of the process of exchange of best practices in the field of research and monitoring of organized crime CSD organized on July 1 a working group meeting with the Federal Criminal Police of Germany, the Serious Organized Crime Agency of the UK (SOCA) and the German Embassy in Bulgaria.

The role of the federal police in carrying out analysis and drafting laws to combat organized crime was presented by Ms Ursula Toettel, Detective Chief Inspector at the Federal Criminal Police in Germany. The goal of the Federal Criminal Police is to apply innovative research methods in the process of combating organized crime. As part of its current activities, the federal police implements joint projects and exchange of information initiatives with countries from Southeast Europe. The federal police also supports victims of human trafficking.

Mr. Nikolay Tagarov, Senior Analyst at the Center for the Study of Democracy, presented the study of the link between corruption and organized crime in 27 EU Member States. Mr. Tagarov outlined CSD’s previous experience in researching organized crime. He spoke of the indirect link between the level of corruption and GDP, whereas lower percentage of GDP is normally tied to higher levels of corruption.

Dr. Emil Tsenkov, Senior Fellow at CSD, discussed problems related to trade in
antiques and the need for formulating adequate policies to combat this type of crime. The antiques market is well structured and is divided between internal trade channels and international trafficking routes. Currently, in the EU the largest number of antiques from Roman, Hellenic and Thracian period were discovered in Bulgaria. This outlines the scope and gravity of the problem with their illegal trade. The politicians do not take a stance or discuss the problem due to personal gains or lack of interest and the legal framework to combat this phenomenon is not in place.

Mr. Tihomir Bezlov, Senior Analyst at CSD presented the main findings of CSD research on the origins and structure of organized crime in the country. The research identifies three types of criminal groups in Bulgaria – underground entrepreneurs, oligarchs and violent entrepreneurs. The level of organized crime in Bulgaria matches that in Russia, the Ukraine and Nigeria – countries with much larger populations.

IV. Corruption and Organized Crime in the Member States of the European Union

The European Program carried out an EC commissioned study on the link between corruption and organized crime in the 27 EU Member States. The results and recommendations of the study were summarized in a final report, which aims to contribute to the development of effective policies on the combating of corruption and organized crime and to add to the exchange of good practices in the field.

The study’s objective was to analyze the main reasons and factors, which predispose the use of corruption by organized crime, to identify and analyze the main corruption mechanisms and to delineate the scope and effect of corruption on public institutions and society as whole, taking into account local as well as regional differences. For this purpose, the research team carried out 156 interviews in 27 countries, literature review on the topic as well as a series of statistical analyses.

The statistical analysis revealed different levels of intensity of corruption among EU Member States, thereby allowing the delineation of 7 clusters of countries with different levels of corruption and organized crime. The research identified the different social, cultural and historical factors in the EU, which influence the ways that organized crime exercises corruption in the public and private sector.

The study analyzes the corruption pressure exercised by organized crime on the political elite, the police, the judiciary, the customs and the private sector. The research identifies the different corruption models and mechanisms and the factors predisposing the use of corruption by organized crime. The analysis discusses the most affected hierarchical levels within public institutions, as well as the vulnerability of the institutions on national and local levels.

The corruption pressure exercised by organized crime on institutions is also analyzed from a market perspective. The study outlines the corruption mechanisms exercised for the functioning of different illegal markets such as cigarette smuggling, trafficking in persons for the purpose of sexual exploitation, drug smuggling, vehicle theft, extortion and racketeering.

As part of the study the researchers carried out six in-depth case studies on the link between corruption and organized crime in Italy, France, Holland, Spain, Bulgaria and Greece. The authors provide a social, historical and cultural
analysis of the origins of organized crime in the six countries, outline the most affected sectors, regions and institutions and outline the measures taken by the authorities to combat corruption and organized crime.

The final report of the study addresses concrete recommendation to the European Commission and to the European Member States for strengthening of the mechanisms for combating corruption and organized crime.
Vitosha Research

2009 Highlights

Vitosha Research has extended the Center for the Study of Democracy’s work in the area of social and marketing research, which started with the implementation of the first independent pre-election and election surveys in 1990. The Agency is a commercial company owned by the Center for the Study of Democracy and specializing in several notable research areas: marketing surveys, social policy research and social assessment, political and electoral behavior, hidden economy, corruption and victimization surveys, development of information and communication technologies, media audience and program research.

- A large number of social, economic, marketing, and media surveys were conducted in 2009. Using qualitative and quantitative methods, about 35,000 structured and semi-structured face-to-face and telephone interviews were conducted, as well as a considerable number of in-depth interviews. The results of these surveys served as the basis for analytical reports.

- The most important topics in 2009 were: public opinion and business community attitudes regarding current national and all-European issues, surveys of electoral behavior, the labor market and business opportunities, crime victim surveys, the situation of people with disabilities, the levels of corruption and grey economy under the annual monitoring conducted by the Center for the Study of Democracy.

- Within the Flash Eurobarometer Project, Vitosha Research conducted a series of surveys among the general public and the business community. Flash Eurobarometer surveys are commissioned by the European Commission and constitute essential tools in the work of European politicians. More notable projects with other international partners of Vitosha Research included the European Electoral Survey, the Berlin Wall Revisited Project, a survey of corporate crime and corruption in the business sector.

- A number of marketing surveys were also conducted in 2009, the large part of which dealt with the consumption of alcoholic beverages and bio products.

I. Social and Economic Surveys

Local business conditions in Bulgaria

The main goal of the research project commissioned by Industry Watch was to assess local business conditions in all 28 districts of the country in terms of company interaction with the local administration: chief obstacles and points of conflict in the provision of administrative services on the local government level, the rate of corruption and the efficiency of anti-corruption measures taken by
the local administration. The survey covered a total of 281 companies with a special focus on the interaction between the local administration and large businesses in the areas of construction, trade and manufacturing.

**Survey and forecast of employers’ needs regarding workforce education and skills**

Vitosha Research conducted a survey of workforce skill requirements of employers. The goal of this survey was to analyze the current labor market situation and to provide a forecast of its future development. It involved 400 face-to-face structured interviews with owners and managers of companies employing 10 or more persons.

**Public opinion on the effects of the crisis and its impact on the use of banking services in this country**

The main goal of this national representative survey was to collect information on the impact of the economic crisis on household behavior relating to the use of banking services, to examine the level of confidence in the Bulgarian banking sector and to identify opinions about the basic economic policy principles in the current situation. More specifically, the survey aimed to explore how the economic crisis is affecting the size, type, and structure of household assets, as well as the population’s employment, income and expenditures. With a view to the country’s problems in 1996-97, an attempt was made to provide a forecast regarding the banking sector, the currency board, and the national economy as a whole.

**Study on the application of biophysical methods in medicine, ecology, and agriculture in Bulgaria**

In late 2009 Vitosha Research began a survey commissioned by the Applied Research and Communications Fund and the Bulgarian Academy of Sciences. It concerns the application of biophysical methods in Bulgarian science and economy. Using face-to-face structured interviews, the survey aims to cover up to 100 companies and research institutes that employ such methods in their work.

**Vrachanski Balkan Nature Park – public-private partnerships in the service of nature and people**

The main goal of this research project commissioned by the Vitosha Nature Park Directorate with the State Forest Agency was to identify potential public-private partnerships whose future implementation could help develop the territory of the park, would popularize its natural landmarks and make it an attractive tourist destination. Using qualitative research methods – desktop research and 11 in-depth interviews – information was collected and analyzed about successful PPPs in similar areas and a set of specific partnership projects was proposed between Vrachanski Balkan Nature Park and potential partners from the business and the non-profit sectors.

**Strategies for PPP implementation by Vrachanski Balkan Nature Park Directorate:**

**Policy of small steps and gradual progress.** This is generally the model to which the Park management has adhered up to now. It consists of implementing relatively small-scale projects, many of which follow up and build on the results of
earlier ones. Applying for funds under various operative programs and other EU sponsored projects ensures the bulk of the financing. The interaction with other institutions and organizations displays elements of public-private partnership but these are not typical PPPs owing to the relatively large share of invested public funds and the small scale of the generated financial and material resources.

Undertaking a few but large-scale initiatives using the mechanisms of the Law on Public Procurement and the Law on Concessions. This could take place in conjunction with the small steps policy but it should be borne in mind that large-scale projects require more thorough planning and a many preliminary consultations and assessments that would take up time and expert resources. This calls for mobilizing the capacity of the Park management as well as external assistance.

Compared to the small projects, it also involves a higher degree of risk for the public side although it would largely be transferred to the private side of the partnerships. This type of strategy excludes the possibility for preliminary choice of partners since the national legislation stipulates mandatory competitive selection. According to legal experts with whom the Vitosha Research team consulted, a procedure under the Law on Public Procurement must be initiated for any activity that has financial value.

Grouping together organizations with similar goals and areas of activity which are to set up business companies. In order to make use of this possibility it is necessary to more thoroughly investigate the legislation regulating the creation of such companies and to establish exactly how nature parks could participate. According to the information collected so far by the research team, there should not be any formal legal obstacles to nature parks’ participation in non-profit organizations and associations and in their turn, the latter can set up and own business companies. Nevertheless, these possibilities should be subject to a more detailed inquiry and consultations with legal experts.

Such companies could engage in a broad range of activities related to the preservation of the environment and promotion of the landmarks and resources of nature parks. On the one hand, there would be dependable guarantees for the quality of their activity and conformity with the acting national and international legislation and on the other hand, they constitute a mechanism capable of generating funds for environmental preservation and for ensuring the sustainability of environmental activities and projects.

II. Corruption, Hidden Economy, and Crime

Monitoring the hidden economy: general population survey

The main objective of the survey was to conduct the regular systematic monitoring of the size and dynamics of the hidden economy in Bulgaria. The project was commissioned by the Center for the Study of Democracy. More detailed information was collected on the following:

- Employment of the population by types of work activity;
- Existence of employment contracts with the employers;
- Proportion of those hired with contracts containing hidden clauses;
- Payment of social security and health insurance contributions;
- The issuing of fiscal receipts upon purchase of durable or non-durable goods;
- The issuing of fiscal receipts for various types of services used.

Monitoring the hidden economy: business sector survey

The business sector survey covered companies from across the country. The main objective was to systematically monitor the size and dynamics of the hidden economy in Bulgaria. More important survey topics included:

- General evaluation of the business climate, quality of legislation, and administrative requirements in Bulgaria;
- Chief obstacles to business development;
- Proportion of those hired without employment contract in each sector;
- Proportion of those hired with employment contracts containing hidden clauses by sector;
- Non-issuing of fiscal receipts by sector;
- Practices of concealing turnover by sector;
- Practices of concealing profits by sector;
- Illegal import/export by sector;
- Fraudulent VAT claims by sector;
- Evasion of taxes, customs duties and excise fees by sector.

The Corruption Monitoring System

Corruption indexes summarize the most important findings of quantita-
tive surveys regarding the rate of corrupt practices among different groups of the population and their attitudes to various aspects of corrupt behavior. Corruption indexes are grouped into several categories:

- Attitudes towards corruption;
- Corrupt practices;
- Rates of corruption;
- Corruption-related expectations.

_Corruption risks and the countering of corruption in the National Revenue Agency (NRA)_

In November 2009, Vitosha Research conducted a survey among the employees with the Regional Offices (RO) of NRA. Information was collected by a poll covering 432 employees from all regional offices, including the Major Tax and Insurance Payers Regional Offices. Unlike most other surveys, which typically cover businesses and households, i.e. victims of corruption, this one was targeted a particular section of the administration perceived by the public as potential initiator of corrupt practices and examined the effect both of positive incentives in the fight against corruption (e.g. salaries, bonuses, etc) and negative ones (control and sanctions for violations of ethical norms of conduct).

_Corporate crime and corruption_

This survey was part of the research project _Official Corruption and the Corporate Sector: Two European Case-Studies_, which examines the situation in Bulgaria and Slovakia. The project is implemented by the Melbourne Research Office of Melbourne University, Australia. It explores the awareness, perceptions and attitudes of businesspersons regarding wrong corporate behavior (the inclination of companies to offer bribes to make sure contracts are awarded to them) and corruption among public officials.

_Figure 10. Crimes reported to the police (% of victims)_

![Bar chart showing the percentage of crimes reported to the police from 2001 to 2008. The values range from 45.4% in 2007 to 56.0% in 2004.](image-url)
In February 2009, Vitosha Research conducted yet another annual national representative survey commissioned by the Ministry of Internal Affairs and aimed at investigating various aspects of crime, crime rates, the seriousness of the crimes committed, police performance evaluation, etc. Two main groups of crimes were covered: property crimes (thefts of and from motor vehicles, thefts of bicycles and motorcycles, burglaries and attempted burglaries) and crimes against the person (robberies, theft of personal property, sexual crimes and assaults).

The employed research method was face-to-face structured interviews, and the survey covered 2,500 respondents over fifteen years of age, collecting information about crimes experienced by the respondents in the course of the preceding year (January – December 2008) and in the past five years (2004-2009).

The National Crime Survey (NCS) registered largely the same level of criminal activity in 2008 compared to 2007. In 2008, 12.3% (compared to 12.2% in 2007) of the households fell victim to some of the 10 groups of crimes used to measure the crime rate in this country.

III. Social Surveys

Flash Eurobarometer

In 2009, Vitosha Research continued its involvement in Flash Eurobarometer – the regular surveys conducted among citizens of the European Union and in countries outside the EU on the most topical social, economic, and political problems. The study covers 34 countries and supports EU-level decision-making by providing a quick and accurate snapshot of public attitudes and perceptions regarding current issues.

Figure 11. Level of victimization and number of registered crimes
Twenty-one surveys were conducted in the past year by structured telephone and face-to-face interviews, for the most part covering the population aged 15 years and over. The issues investigated included the introduction of the Euro in the new EU member states, EU enlargement, consumer protection in the domestic market, relations between generations, young people and their problems, women and the European Parliament, the financial crisis, etc. Three surveys were also conducted among companies in order to explore the economic climate for business development, including available financing opportunities, the companies’ innovation strategies, and trade within the European market.

*European Electoral Survey – 2009*

The European Electoral Survey commissioned by the Institute of Political Science at Leiden University, Netherlands, was conducted among EU citizens immediately after the European Parliament elections in June 2009. Vitosha Research conducted the study among Bulgarian voters. By 700 face-to-face interviews and 300 telephone interviews, the survey explored voters’ attitudes towards Bulgarian political parties, left-right subjective identification, satisfaction with one’s position in the social hierarchy, the influence of national and European policies on the lives of individual citizens, opinions about EU activities, religious and national self-identification, etc.

*The Berlin Wall Revisited – 2009*

The project is a comparative study of public attitudes towards key issues of economic, political and social development in the countries of Eastern Europe in the period from 1990 to 2009. It covers questions related to the fundamental principles of the political and economic system in the country, assessment of the performance of institutions, expectations about the country’s development and personal prospects, ethnic and topical geopolitical issues.

*Analysis of the situation of people with disabilities in Bulgaria*

In 2009, Vitosha Research conducted a survey Analysis of the Situation of People with Disabilities in Bulgaria with a view to enhancing the capacity of the Agency for People with Disabilities in analyzing, planning, and implementing the government policy for integration of the disabled. The project employed a combination of quantitative and qualitative methods. A national representative survey was conducted among the adult population of the country as well as a national representative survey among people with disabilities. Both target groups were surveyed by face-to-face structured interviews with samples of 1,000 persons. In addition, 40 in-depth interviews were conducted with representatives of institutions on the national and local levels, NGOs, and social institutions, as well as content analysis of the representation of the disabled in the media and the attitude of members of the media towards people with disabilities.

The survey comprised two main components. The first one concerned the government policy towards people with disabilities and analyzed official national, international, and European documents regulating and shaping government policy, as well as statistical data illustrating the results of this policy in the various areas concerned. The second part consisted in a study of the socio-economic profile of people with disabilities and how they are perceived and treated by society.

The share of persons with permanent disabilities in this country was estimated at approximately 9% of the population,
or 715,000 people. The bulk of the disabled population are excluded from the labor market – barely 11% are employed and nearly half of those have found their jobs on their own. The average gross monthly income per household member among the disabled is by 31% lower than among the rest of the population. The people with disabilities and their families typically finance the necessary medications, medical supplies and rehabilitation themselves – in three-fourths of the cases these were paid in part or fully by the disabled themselves, and in 29%, by family members.

*Biggest Cities Review*

Vitosha Research and Industry Watch continued their joint research project *Biggest Cities Review*, which was started in 2006. It involves the preparation of regular reports including quarterly reviews on selected topics. The main purpose of these analyses is to provide viable and up-to-date information that can serve as the basis for making investment decisions. The key topics covered by the regular reports are:

- Differences in the cost of labor by city;
- Average working salary and labor supply;
- Differences in the cost of living by city.

The analysis is based on data from omnibus surveys representative of the population aged 15 years and older.

*Corporal punishment of children as a parenting tool in Bulgaria*

The survey was conducted in May 2009 and its main goal was to examine how
Bulgarians feel about the use of corporal punishment in the raising of children, as well as to estimate the proportion of Bulgarian children subject to corporal punishment by their parents. The results were compared to the data from a similar study conducted in 2005. Interviews were conducted with 1,000 people aged 15 years or older. Respondents’ opinions regarding corporal punishment of children have not changed significantly in the past 4 years. Now, as well as in 2005, four out of five thought a certain number of children were subject to such treatment. Most respondents assumed the share of children subject to corporal punishment did not exceed 20% and typically estimated their proportion at 10%. Nevertheless, one in two Bulgarians was of the opinion that corporal punishment should never be used in the raising of children. Slightly more than one-third of the respondents said it might be justified in certain situations. The smallest group (11%) remained those who thought corporal punishment could be used at parents’ discretion.

IV. Media and marketing research

Production, distribution and consumption of bio products in Bulgaria

The main goal of this research project commissioned by the Ministry of Agriculture and Foods (MAF) was to outline the general situation in the market for bio products in Bulgaria by surveying the principal stakeholders in this market – consumers, producers, and retailers.

The group of the consumers was covered by a national representative sur-

![Pie chart showing expectations of producers/importers/exporters about bio-product sales volume in the next 2 years]

- Bio-product sales volume will increase: 35%
- Bio-product sales volume will remain largely the same: 28%
- Bio-product sales volume will decrease: 19%
- No answer: 18%
vey of 1,000 people by the method of the face-to-face structured interview held in respondent’s home. Information was collected about consumer attitudes and perceptions of bio products, their level of awareness, ability to differentiate between certified bio products and possible imitations. The market share was also established of these products compared to their conventional equivalents.

Furthermore, 125 producers, processors, importers, and exporters of bio products were surveyed. Information was collected about the production of bio products in this country, prospects for expansion, as well as the competitiveness of Bulgarian-made products versus imported ones. The survey further covered 205 points of sale (stores, restaurants, hotels) in order to gather information about the range of products on offer, the correlation between Bulgarian-made and imported bio products, and a comparative price analysis was made of bio and conventional products in the retail network. A representative survey was also conducted covering 84 high-class hotels and restaurants.

Desk research was conducted to outline the legal-and-regulatory framework of biological production in Bulgaria. The main finding was that even though excellent conditions for biological production are in place in Bulgaria it is as yet at an early stage of development and in need of financial support from the state. Bio products in the Bulgarian market hold a small market share compared to conventional ones. Bulgarian consumers are not sufficiently aware of the existence of bio products – slightly

---

**Figure 14. Have you ever purchased bio products?**

- **Don’t know what bio product is** 26%
- **Yes, several times** 11%
- **Yes, quite a few times** 7%
- **I buy very often** 4%
- **Yes, once** 2%
- **No answer** 4%
- **Have never bought any** 46%
more than one-fifth of the interviewed consumers were aware of their existence and those who did know were not familiar enough with their characteristics to easily identify fake and imitation products that all too often appear in the market. Poor awareness is one of the major reasons for the limited consumption. At the same time, the survey found that the current consumers of bio products appreciated the quality of the Bulgarian-made products and noted as an advantage their competitive prices compared to imported ones.

Other marketing surveys conducted by Vitosha Research in 2009 covered the following more notable areas:

- Alcoholic beverage brand studies;
- Pediatricians’ attitudes toward vaccinations not included in the mandatory vaccination schedule;
- Testing the advertising message of a medical product;
- Survey of the market for fixed line telephone services;
- Survey of brand awareness and consumption of specific brands of hygiene and cosmetic products.
Part Two
Administration and Management
Administration and Management

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

In 2009, CSD employed a staff of thirty-four of whom twenty-six in professional and management positions, including part-time consultants, and eight in administrative personnel positions.

Accountability and transparency are guiding principles in the operation of the Center for the Study of Democracy. They are intrinsic to CSD activity and are related to the critical analysis of reforms in this country. These principles are implemented by means of:

- Publishing annual audit reports since 1992;
- Auditing individual projects;
- Publishing annual reports (since 1994);
- Providing regularly updated information about activities on the CSD website;
- Providing information to the mass media about ongoing projects and the results achieved;
- Publishing a wide range of reports and working papers;
- Developing the consultancy units of CSD – Vitosha Research and Project 1.

Vitosha Research EOOD and Project One EOOD are wholly owned commercial companies of the Center for the Study of Democracy. Vitosha Research began its activities as part of the Sociological Program of the Center. It was span off as a separate company in 2000 to help sustain the Center’s mission through engaging in marketing research. The General Manager of Vitosha Research is CSD’s Research Director. Project 1 EOOD was established in 2003 on advice from CSD’s audit company KPMG to better keep CSD’s commercial and non-profit activities financially separated and to allow the group to participate in Bulgarian and European tenders. The Executive Director of CSD is General Manager of Project 1. The three organizations within the CSD group work closely together and enhance their human, physical and financial resources to achieve their mission while guaranteeing that the non-profit and commercial activities of the group are duly separated.

The application of sound management practices has been of crucial importance to the success of the Center for the Study of Democracy. In 2009, CSD continued its efforts to adapt to the changing donor environment and the new EU financial instruments available to Bulgaria for the 2007-2013 period – the 7th Framework Program, the financial instruments in the area of justice and home affairs, the operational programs administered by the Bulgarian government, etc.

In July 2009, CSD completed the implementation of a project under the Operational Program Administrative Capacity. The project started in 2008 and aimed to strengthen the capacity of the Center for the Study of Democracy and enhance its work in the field of justice and home affairs. As result of the project:

- CSD strengthened its organizational structure and capacity in the area
of organizational development, strategic management based on business processes, achievement of greater social impact, collaboration, media outreach, increase of productivity through modern ICT and integration of various information resources and databases.

- **CSD enhanced its capacity to monitor and assess the processes and policies** in the field of justice and home affairs (JHA) based on the current EU practices, norms and standards. The CSD team prepared and published online 62 documents, training and information materials, as well as presentations on the topic. CSD also held a series of training seminars on the standards and practices in the area of justice and home affairs, applied in the EU countries and Bulgaria in particular.

- **The CSD team increased its capacity and expertise in the area of justice and home affairs and strengthened its links with partner NGOs in the country.** CSD organized 8 seminars and trainings on the topic of JHA. A total of 89 experts from 37 NGOs, representatives of government institutions and universities, as well as 20 journalists attended the seminars. European and international best practices in countering corruption and crime were presented during the seminars.

- **CSD strengthened its capacity for establishing public-private partnerships** for implementing the EU standards and practices in the area of justice and home affairs. The CSD team established a Bulgarian NGO network, capable of monitoring and evaluation of activities in the field of JHA. Members of the NGO network were selected on the basis of collaborative work experience, to carry out monitoring of the implementation of the Strategy for Transparent Governance and for the Prevention and Countering of Corruption 2006 – 2008.
List of Staff

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

**Program Board**
Maria Yordanova, PhD, Director, Law Program
Chavdar Chevremkov, Lieut. Gen. (ret.), Director, European Program
Andrey Nonchev, PhD, Director, Sociological Program
Ruslan Stefanov, Director, Economic Program

**Economic Program**
Todor Yalamov, Senior Analyst
Daniela Mineva, Research Fellow
Boyan Belev, PhD, Senior Fellow
Ilian Iliev, Senior Fellow
Dobromir Hristov, PhD, Research Fellow
Valentina Nikolova, Policy Analyst
Snezhana Popova, Program Assistant

**Law Program**
Dimitar Markov, Senior Analyst and Project Director
Miriana Ilcheva, Research Fellow
Galina Sapundjiev, Program Assistant
Maria Doichinova, Program Assistant

**Sociological Program**
Todor Galev, PhD, Senior Analyst
Svetla Encheva, Analyst

**European Program**
Boyko Noev, Ambassador, Senior Fellow
Tihomir Bezlov, Senior Analyst
Boyko Todorov, Senior Fellow
Emil Tsenkov, PhD, Senior Fellow
Philip Gounev, Research Fellow
Kamelia Dimitrova, Research Fellow
Nikolai Tagarov, Senior Analyst
Administration
Mariana Yankova, Administrative Secretary
Nelly Gospodinova, Executive Assistant
Alexander Gergov, LAN Administrator

Financial Department
Maria Georgieva, Chief Accountant
Lazarina Andonova, Cashier/Bookkeeper

Technical Support
Boyko Tassev
Alyosha Purvanov
General Assembly

Alexander Stoyanov, Director of Research, Center for the Study of Democracy and General Manager, Vitosha Research EOOD

Andrey Ivanov, PhD, Human Development Advisor, RBEC, United Nations Development Programme – Bratislava

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

Emil Tsenkov, PhD, Senior Fellow, Center for the Study of Democracy

Evgenii Dainov, PhD, Director, Centre for Social Practices

Inko Razpopov, PhD, General Manager, IR Communications

George Prohasky, PhD, Co-Chairman, Center for Economic Development

Mois Faion, PhD, Chief Financial Officer, All Telecoms JSC

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

Tihomir Bezlov, Senior Analyst, Center for the Study of Democracy

Vladimir Yordanov, Executive Director, Center for the Study of Democracy and General Manager, Project 1 EOOD
Part Three
Financial Review
Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2009
Independent Auditors’ Report

To the General Assembly of
Center for the Study of Democracy

Sofia, 29 July 2010

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Center for the Study of Democracy and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting
policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Rositsa Boteva
Registered Auditor
“Major Parvan Toshev” str., Nr. 25
Sofia 1408

Bulgaria
Center for the Study of Democracy (The Group)
Consolidated Statement of Financial Position, 31 December 2009

(all amounts in BGN thousand)

<table>
<thead>
<tr>
<th></th>
<th>Note</th>
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<th>31 December 2008</th>
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<tr>
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<td><strong>3,415</strong></td>
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</table>

These financial statements set out on pages 3-28 were approved by the Board of Directors on 29 July 2010. They are signed on behalf of the Board of Directors by:

Vladimir Yordanov  
Executive Director  
29 July 2010

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
29 July 2010
<table>
<thead>
<tr>
<th>Note</th>
<th>(all amounts in BGN thousand)</th>
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<td>Revenues</td>
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<td>Administrative expenses</td>
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<td>Impairment losses</td>
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<td>Financial expenses</td>
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<td>Net financing costs</td>
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<td><strong>Profit before income tax</strong></td>
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<td>16</td>
<td>Income tax expense</td>
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<td><strong>Net profit/ Loss for the period</strong></td>
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<td></td>
<td>Other comprehensive income</td>
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<td></td>
<td><strong>Total comprehensive income</strong></td>
<td><strong>42</strong></td>
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</table>

These financial statements set out on pages 3-28 were approved by the Board of Directors on 29 July 2010. They are signed on behalf of the Board of Directors by:

Vladimir Yordanov  
Executive Director  
29 July 2010

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
29 July 2010
(all amounts in BGN thousand)

<table>
<thead>
<tr>
<th>Note</th>
<th>Retained earnings</th>
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<td>Net loss for the period</td>
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<td>(340)</td>
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<td></td>
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<td>3,210</td>
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<tr>
<td>Balance as at 1 January 2009</td>
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<td>3,210</td>
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<td>Net profit for the period</td>
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<tr>
<td>Balance as at 31 December 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,252</td>
<td>3,252</td>
</tr>
</tbody>
</table>

These financial statements set out on pages 3-28 were approved by the Board of Directors on 29 July 2010. They are signed on behalf of the Board of Directors by:

Vladimir Yordanov  
Executive Director  
29 July 2010

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
29 July 2010
Center for the Study of Democracy (The Group)  
Consolidated Cash Flow Statement, 31 December 2009

<table>
<thead>
<tr>
<th>(all amounts in BGN thousand)</th>
<th>Note</th>
<th>31 December 2009</th>
<th>31 December 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Loss)/Profit before income tax</td>
<td>58</td>
<td>(335)</td>
<td></td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>5,6,7</td>
<td>95</td>
<td>85</td>
</tr>
<tr>
<td>Net interest income accrued</td>
<td>(36)</td>
<td>(33)</td>
<td></td>
</tr>
<tr>
<td>Revenues from donation (non-cash)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net profit/(loss) from revaluation of financial assets</td>
<td>-</td>
<td>238</td>
<td></td>
</tr>
<tr>
<td><strong>Total Adjustments</strong></td>
<td></td>
<td>117</td>
<td>(45)</td>
</tr>
<tr>
<td>Changes in working capital:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/Decrease of inventory</td>
<td>-</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>(Decrease)/Decrease of trade and other receivables and deferred expenses</td>
<td>(273)</td>
<td>(37)</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) of trade and other payables</td>
<td>7</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td>(149)</td>
<td>(69)</td>
</tr>
<tr>
<td>Interest received</td>
<td>36</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td>32</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td></td>
<td>(145)</td>
<td>(36)</td>
</tr>
</tbody>
</table>

**Cash flows from investment activities**

| Purchase of property, plant and equipment and intangible assets | (302) | (429) |
| Proceeds from sale of property, plant and equipment | 52 | - |
| **Net cash flows from investment activities** | (250) | (429) |
Center for the Study of Democracy (The Group)
Consolidated Cash Flow Statement, 31 December 2009

<table>
<thead>
<tr>
<th>(all amounts in BGN thousand)</th>
<th>Note</th>
<th>31 December 2009</th>
<th>31 December 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financial activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of financial assets</td>
<td>-</td>
<td>1,122</td>
<td></td>
</tr>
<tr>
<td>Paid interest and bank charges</td>
<td>(4)</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td>Purchase of financial assets</td>
<td>200</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow from financial activities</strong></td>
<td></td>
<td>196</td>
<td>1,118</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>(199)</td>
<td>653</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>942</td>
<td>289</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the period</strong></td>
<td>743</td>
<td>942</td>
<td></td>
</tr>
</tbody>
</table>

These financial statements set out on pages 3-28 were approved by the Board of Directors on 29 July 2010. They are signed on behalf of the Board of Directors by:

Vladimir Yordanov
Executive Director
29 July 2010

Initialled for identification purposes in reference to the audit report:

Rositsa Boteva
Registered Auditor
29 July 2010
1. Company background and activities

The Center for the Study of Democracy (the “Organisation”) is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2009 comprise the Organisation and its subsidiaries, Vitosha Research EOOD and Project 1 EOOD (together referred to as the “Group”).

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

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

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

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

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

The financial statements were approved by the Board of Directors on 29 July 2010.

2. Accounting policies

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

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.
The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

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

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

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

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

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

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

Transactions with minority interests
Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated
balance sheet, separately from parent shareholders’ equity. Disposals of minority interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of minority interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

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

New and amended standards, adopted by the Company:

- IAS 1 (revised). ‘Presentation of financial statements’ – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.
- IAS 23 (revised), “Borrowing costs” (effective for periods beginning on or after 1 January 2010). Under the revised standard, an entity is required to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs was removed. The capitalisation is required for qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company has applied this standard in accordance with the transition provisions. Due to the fact that the Company started the construction of a qualifying asset before 1 January 2009, this change had no effect on the financial statements for the year ended 31 December 2009.
- IAS 40 (amendment), “Investment property” (and consequential amendment to IAS 16, ‘Property, plant and equipment’). The amendments are part of the IASB’s annual improvements project published in May 2008 and are effective from 1 January 2009. Property that is under construction or development for future use as investment property is brought within the scope of IAS 40.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Fund:

- IFRS 5 (amendment), “Measurement of non-current assets (or disposal groups) classified as held-for-sale”. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- IAS 36 (amendment), “Impairment of assets” (Effective for periods beginning on or after 1 January 2010). Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8, ‘Operating segments’
(that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8).

- IFRS 8 (amendment), “Operating segments” (Effective for periods beginning on or after 1 January 2010). Minor textual amendment to the standard and amendment to the basis for conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker.
- IAS 7 (amendment), “Statement of cash flows” (Effective for periods beginning on or after 1 January 2010). Amendment require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.
- IAS 17 (amendment), “Leases” (Effective for periods beginning on or after 1 January 2010). Deletion of specific guidance regarding the classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification.
- IAS 1 (amendment), ‘Presentation of financial statements’. The amendment is part of the IASB’s annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- Amendments to IFRS 2, “Share-based Payment” – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation.
- IAS 38 (amendment), “Intangible assets” (Effective for periods beginning on or after 1 January 2010).

Currently, the following IASB pronouncements have not yet been endorsed for use in Europe:
- IFRS 9 Financial Instruments
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Revised IAS 24 Related Party Disclosures

2.2. Foreign currency translations

2.2.1. Functional and presentation currency

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

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

2.3. Property, plant and equipment

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

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

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

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

<table>
<thead>
<tr>
<th>Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>25 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>2 years</td>
</tr>
<tr>
<td>Vehicles</td>
<td>4 years</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>2 – 6 years</td>
</tr>
</tbody>
</table>

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

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

2.4. Intangible assets

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

Subsequent expenditures

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.
2.5. Financial assets

The Group classifies its financial assets in the following categories: investment in subsidiaries, loans and receivables and financial assets at fair value through profit or loss.

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

For the purposes of these financial statements short term means a period within 12 months. During the year, the Company did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2009.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company’s loans and receivables comprise ‘trade and other receivables’ and ‘cash and cash equivalents’ in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

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

2.6. Inventory

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

2.7. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.
Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within ‘selling and marketing costs’. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against ‘selling and marketing costs’ in the income statement.

2.8. Cash and cash equivalents

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

2.9. Share capital

The Group accounts for its share capital at the nominal value of its issued ordinary shares.

2.10. Borrowings

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

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

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

2.11. Deferred tax

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

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

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

2.13. Revenue recognition

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

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

Sales of services

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

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

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Interest income

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

Dividend distribution to the company’s shareholders is recognised as a liability in the group’s financial statements in the period in which the dividends are approved by the company’s shareholders.

3. Financial risk management

3.1. Global financial crisis

Recent volatility in global financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group’s financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

Impact on liquidity

The global financial crisis may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/borrowers

Debtors or borrowers of the Group be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers or borrowers may also have an impact on management’s cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

3.2. Financial risk factors

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

a) Currency risk
The Group is not exposed to foreign exchange risk as most of its foreign transactions are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR.

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

b) Price risk
The Company’s management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Company.

3.2.2. Cash flow and fair value interest rate risk

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

3.2.3. Credit risk

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

3.2.4. Liquidity risk

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

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

<table>
<thead>
<tr>
<th>As at 31 December 2009</th>
<th>Up to 1 year</th>
<th>Between 1 and 2 years</th>
<th>Between 2 and 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>120</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As at 31 December 2008</th>
<th>Up to 1 year</th>
<th>Between 1 and 2 years</th>
<th>Between 2 and 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>47</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
4. Critical accounting estimates and judgements

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings</th>
<th>Computers</th>
<th>Vehicles</th>
<th>Fixtures &amp; Fittings</th>
<th>Other assets</th>
<th>Assets under</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2008</td>
<td>839</td>
<td>167</td>
<td>264</td>
<td>106</td>
<td>3</td>
<td>576</td>
<td>1,955</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>402</td>
<td>427</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>As at 31 December 2008</strong></td>
<td><strong>839</strong></td>
<td><strong>175</strong></td>
<td><strong>264</strong></td>
<td><strong>123</strong></td>
<td><strong>3</strong></td>
<td><strong>978</strong></td>
<td><strong>2,382</strong></td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>19</td>
<td>64</td>
<td>3</td>
<td>-</td>
<td>192</td>
<td>278</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(1)</td>
<td>(102)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(103)</td>
</tr>
<tr>
<td><strong>As at 31 December 2009</strong></td>
<td><strong>839</strong></td>
<td><strong>193</strong></td>
<td><strong>226</strong></td>
<td><strong>126</strong></td>
<td><strong>3</strong></td>
<td><strong>1,170</strong></td>
<td><strong>2,257</strong></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2008</td>
<td>68</td>
<td>100</td>
<td>207</td>
<td>91</td>
<td>2</td>
<td>11</td>
<td>479</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>17</td>
<td>22</td>
<td>21</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>67</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>As at 31 December 2008</strong></td>
<td><strong>85</strong></td>
<td><strong>122</strong></td>
<td><strong>228</strong></td>
<td><strong>98</strong></td>
<td><strong>2</strong></td>
<td><strong>11</strong></td>
<td><strong>546</strong></td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>18</td>
<td>23</td>
<td>23</td>
<td>6</td>
<td>1</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(1)</td>
<td>(103)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(103)</td>
</tr>
<tr>
<td><strong>As at 31 December 2009</strong></td>
<td><strong>103</strong></td>
<td><strong>144</strong></td>
<td><strong>149</strong></td>
<td><strong>104</strong></td>
<td><strong>3</strong></td>
<td><strong>11</strong></td>
<td><strong>514</strong></td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2008</td>
<td>771</td>
<td>67</td>
<td>57</td>
<td>15</td>
<td>1</td>
<td>565</td>
<td>1,476</td>
</tr>
<tr>
<td>As at 31 December 2008</td>
<td>754</td>
<td>53</td>
<td>36</td>
<td>25</td>
<td>1</td>
<td>967</td>
<td>1,836</td>
</tr>
<tr>
<td>As at 31 December 2009</td>
<td>736</td>
<td>49</td>
<td>77</td>
<td>22</td>
<td>-</td>
<td>1,159</td>
<td>2,043</td>
</tr>
</tbody>
</table>
6. Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2008</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Additions</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>As at 31 December 2008</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Additions</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>As at 31 December 2009</td>
<td>79</td>
<td>79</td>
</tr>
</tbody>
</table>

**Amortisation**

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2008</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Amortisation charge</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>As at 31 December 2008</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Amortisation charge</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>As at 31 December 2009</td>
<td>46</td>
<td>46</td>
</tr>
</tbody>
</table>

**Carrying amount**

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2008</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>As at 31 December 2008</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>As at 31 December 2009</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

7. Investment property

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount at the beginning of the period</td>
<td>389</td>
<td>400</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>(11)</td>
<td>(11)</td>
</tr>
<tr>
<td>Carrying amount at the end of the period</td>
<td>378</td>
<td>389</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>428</td>
<td>428</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(50)</td>
<td>(39)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>378</td>
<td>389</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>444</td>
</tr>
<tr>
<td>Trade receivables, net</td>
<td>419</td>
</tr>
<tr>
<td>Prepaid corporate tax</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>456</td>
</tr>
</tbody>
</table>

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

9. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Cash at hand</td>
<td>52</td>
</tr>
<tr>
<td>Cash in bank current accounts</td>
<td>691</td>
</tr>
<tr>
<td></td>
<td>743</td>
</tr>
</tbody>
</table>

10. Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Trade payables</td>
<td>88</td>
</tr>
<tr>
<td>Salaries and social securities payables</td>
<td>23</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>

11. Loans liabilities

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Principal of loan to related parties</td>
<td>200</td>
</tr>
<tr>
<td>Interest payable</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>45</td>
</tr>
</tbody>
</table>

Loans liabilities represent loan granted in 2009 by IR Communications to Project 1. According to the loan contract the interest rate is 8%.
### 12. Deferred financing

<table>
<thead>
<tr>
<th>Project Description</th>
<th>As at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Bulgaria Fund – Civil Society Capture</td>
<td>33</td>
</tr>
<tr>
<td>Royal Netherlands Embassy in Sofia – Enhancing Transparency and Business Integrity in Bulgaria</td>
<td>2</td>
</tr>
<tr>
<td>Bulgaria Fund – Monitoring of Anti-Corruption Reforms in Bulgaria</td>
<td>-</td>
</tr>
<tr>
<td>Ministry of Education and Science – Scientific Research Fund Co-funding under Seventh Framework Program (FP7) – Scientific Indicators of Confidence in Justice: Tools for Policy Assessment</td>
<td>-</td>
</tr>
<tr>
<td>European Commission – Crime Repression Costs in Context</td>
<td>-</td>
</tr>
<tr>
<td>European Commission – Global Governance, Regionalization and Regulation: The Role of the EU</td>
<td>5</td>
</tr>
<tr>
<td>Access Sofia Foundation – Monitoring of the Work of the Sofia City Council and its Standing Committees</td>
<td>5</td>
</tr>
<tr>
<td>Council of Ministers – Evaluation and Analysis of the Coordination and Control Functions of the Commission for Prevention and Countering of Corruption (CPCC)</td>
<td>-</td>
</tr>
<tr>
<td>Total deferred financing related to projects</td>
<td>45</td>
</tr>
<tr>
<td>Financing for acquisition of fixed assets</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>
13. Revenues

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

<table>
<thead>
<tr>
<th>Project Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Program Administrative Capacity – Strengthening CSD’s Capacity in the Area of Justice and Home Affairs</td>
<td>127</td>
<td>126</td>
</tr>
<tr>
<td>European Commission – Scientific indicators of Confidence in Justice: Tools for Policy Assessment</td>
<td>116</td>
<td>84</td>
</tr>
<tr>
<td>Bulgaria Fund – Monitoring of Anti-Corruption Reforms in Bulgaria</td>
<td>39</td>
<td>75</td>
</tr>
<tr>
<td>USAID – International Conference: Democracy that Delivers: Unlocking the Potential of Transition</td>
<td>-</td>
<td>64</td>
</tr>
<tr>
<td>European Commission – Crime Repression Costs in Context</td>
<td>74</td>
<td>31</td>
</tr>
<tr>
<td>European Commission – Strategies for Effective Police Stop and Search</td>
<td>-</td>
<td>45</td>
</tr>
<tr>
<td>European Community – Regional Innovation Strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal Netherlands Embassy in Sofia – Enhancing Transparency and Business Integrity in Bulgaria</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>British Embassy in Sofia – Border Justice</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>European Commission – Global Governance, Regionalization and Regulation: The Role of the EU</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Access Sofia Foundation – Monitoring of the Work of the Sofia City Council and its Standing Committees</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Royal Norwegian Embassy in Sofia – Norwegian Cooperation Programme – Strengthening Governance for Sustainable Production in Bulgaria</td>
<td>179</td>
<td>-</td>
</tr>
<tr>
<td>Ministry of Labour and Social Policy – European Integration Fund – Development of Information Foundations of the Bulgarian Immigration Policy Towards Third Countries Nationals</td>
<td>46</td>
<td>-</td>
</tr>
<tr>
<td>Council of Ministers – Evaluation and Analysis of the Coordination and Control Functions of the Commission for Prevention and Countering of Corruption (CPCC)</td>
<td>29</td>
<td>-</td>
</tr>
<tr>
<td>Ministry of Education and Science – Scientific Research Fund Co-funding under Seventh Framework Program (FP7) – Scientific Indicators of Confidence in Justice: Tools for Policy Assessment</td>
<td>19</td>
<td>-</td>
</tr>
<tr>
<td>Other projects</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>662</td>
<td>471</td>
</tr>
<tr>
<td>Revenue from services</td>
<td>1,079</td>
<td>746</td>
</tr>
<tr>
<td>Income from financing for fixed assets</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>1,763</td>
<td>1,240</td>
</tr>
</tbody>
</table>
14. Cost of sales

Cost of sales for the Group includes:

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for materials</td>
<td>53</td>
<td>56</td>
</tr>
<tr>
<td>External services</td>
<td>1,130</td>
<td>845</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>95</td>
<td>83</td>
</tr>
<tr>
<td>Salaries and social securities</td>
<td>383</td>
<td>255</td>
</tr>
<tr>
<td>Other expenses</td>
<td>49</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,710</td>
<td>1,337</td>
</tr>
</tbody>
</table>

15. Finance costs, net

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Gains from revaluation of financial assets, carried at fair value through profit or loss</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(11)</td>
<td>33</td>
</tr>
<tr>
<td>Foreign exchange gains/(losses), net</td>
<td>(1)</td>
<td>5</td>
</tr>
<tr>
<td>Loss on sale of financial assets, carried at fair value through profit or loss</td>
<td>(237)</td>
<td></td>
</tr>
<tr>
<td>Other financial expenses</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(16)</td>
<td>(236)</td>
</tr>
</tbody>
</table>

Finance costs, net: 20  (203)

16. Income tax

The major components of income tax expense for the year ended 31 December 2009 and the period ended 31 December 2008 are:

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td>(21)</td>
<td>(2)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>6</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(17)</td>
<td>(5)</td>
</tr>
</tbody>
</table>
Movement in deferred tax asset and deferred tax liability as of 31 December 2009 and 31 December 2008 includes the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2009</th>
<th>31 December 2008</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>(4)</td>
</tr>
<tr>
<td>Inventory</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Trade payables</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Net deferred tax asset/liability</td>
<td>7</td>
<td>-</td>
<td>5</td>
<td>(4)</td>
</tr>
</tbody>
</table>

The official rate stated in Corporate Tax Law adopted for 2009 was set to 10% (2008:10%). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

**Movement in deferred tax**

<table>
<thead>
<tr>
<th></th>
<th>Balance as of 1 January 2009</th>
<th>Expense in income statement</th>
<th>Balance as of 31 December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(4)</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Inventory</td>
<td>3</td>
<td>(3)</td>
<td>-</td>
</tr>
<tr>
<td>Trade payables</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Net deferred tax asset/liability</td>
<td>1</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

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

There are no tax checks performed in the recent years.
17. Related parties

The group is related party to the ARC Fund and its subsidiary (ARC Consulting EOOD)

The following transactions occurred during the year:

<table>
<thead>
<tr>
<th>Related party</th>
<th>Transactions during the year</th>
<th>January-December</th>
<th>31 December</th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARC Consulting</td>
<td>Consultancy services rendered to Vitosha Research EOOD</td>
<td>-</td>
<td>39</td>
<td>-</td>
</tr>
<tr>
<td>ARC Fund</td>
<td>Consultancy services rendered to Vitosha Research EOOD</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ARC Fund</td>
<td>Rent contract</td>
<td>90</td>
<td>45</td>
<td>-</td>
</tr>
<tr>
<td>IR Comm-s EOOD</td>
<td>Loan received</td>
<td>200</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Transactions with directors and other members of the management**

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>129</td>
<td>95</td>
</tr>
</tbody>
</table>

18. Events after the balance sheet date

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