

**Bulgarian Center for
Not-for-Profit Law**

**Annual
Report**

2004



Sofia, 2005

MISSION

The mission of BCNL is to provide legal support for the development of civil society in Bulgaria.

BCNL IS THANKFUL TO ITS DONORS

International Center for Not-for-Profit Law

Open Society Institute – Sofia

United States Agency
for International Development

European Union,
PHARE Programme

Dear colleagues and friends,

A key focus of the work of the Bulgarian Center for Not-for-Profit Law in 2004 was the support for contracting out state or municipal functions/ services to nongovernmental organizations. With the help of our partners across the country we provided assistance to a number of municipalities in organizing the first competitions for selecting providers of social services financed by municipalities or the state. We started an important project in the town of Ruse for drafting a municipal ordinance regulating the process of financing nongovernmental organizations by the local municipality. We hope that the experience amassed there will be applied in municipalities throughout Bulgaria.

As an important tool for impact on state policy we also helped the setting up of a network of organizations supporting the speeding up of reform in the area of social services. We hope that the network will evolve into a partner and advisor of public institutions and that, through the expertise of its member organizations, it will enhance the partnership between the state and nongovernmental organizations in service provision.

As a follow-up of our last year's initiative for setting up a strategy for financial sustainability of the nongovernmental sector, in 2004 the Bulgarian Center for Not-for-Profit Law combined efforts with the Bulgarian Charities Aid Foundation and both organizations developed a joint project for encouraging philanthropy and improving the legal framework which would ensure the financial sustainability of nongovernmental organizations in Bulgaria. The project was supported by the Trust for Civil Society in Central & Eastern Europe and kicked off in the beginning of 2005.

In 2005 we are going to continue with our efforts to provide you with timely information on the new laws related to your activity but, first and foremost, we hope and rely on your support for all the upcoming legislative initiatives related to improving the legal framework of the nongovernmental organizations in Bulgaria.

Wishing you a successful year,

A handwritten signature in black ink, consisting of several fluid, connected strokes. The signature is stylized and appears to be the name 'Luben Panov'.

Luben Panov

Director of the Bulgarian Center for Not-for-Profit Law

WHAT HAPPENED IN THE CIVIL SECTOR IN BULGARIA IN 2004 FROM OUR PERSPECTIVE?

Another year has gone by full of dynamic events both for the third sector and for our society in general.

2004 was the year when the first competitions were for outsourcing social services to not-for-profit providers held by municipalities and this happened after the legislative reform allowing it has been in force for over a year and a half. This good practice soon demonstrated the big social effect and positive outcomes that the not-for-profit organizations could achieve in meeting local needs, all the more when this has been done in a sensitive and unattractive to businesses sphere such as social services.

At the end of 2004 some important tax amendments were passed which encouraged donations in Bulgaria, including for not-for-profit public benefit organizations. Of course we should ask ourselves whether the state is ready to relinquish its role of re-allocator of all the funds in the country since the contributions to a state fund (even for such an important task as operations of children abroad) are treated much more favorably.

With a view to our upcoming membership to the European Union a large share of the so-called big donors are to exit Bulgaria. On the one hand, this should give us self-confidence as it proves that our society has already reached the necessary maturity and development and is not among the priority states for financial aid. At the same time we have to take the responsibility for defining our own paths for development and searching for our own resources and new sources of funding. As a result of this irreversible and natural process in the development of a young civil society a large part of the not-for-profit organizations are facing the huge problem of fundraising. Most organizations have realized the need of raising their capacity for developing their own economic activity, training specialized staff for this, or searching for new donor programs and priorities. Others find it difficult to meet the challenges of the new time and there is a risk for them to stop functioning.

In this respect an important event was the opening of the program of the Civil Society Trust in Central and Eastern Europe in Bulgaria. In the framework of this donor program four organizations were provided 2-year grants amounting in total to over \$ 1 mln. which would encourage the institutional development of the civil sector in Bulgaria through work on important issues such as raising local resources for development of not-for-profit organizations and improving their capacity for access to alternative sources of support. The Trust is also promoting the active role of the not-for-profit organizations in public policy.

WHAT WERE THE GOALS OF BCNL IN 2004?

The main priorities in BCNL's work in 2004 were related to the development of the social reform in Bulgaria, and in particular:

- Encouraging the decentralization in contracting out social services and raising the capacity of NGOs and municipalities;
- Strengthening the possibilities for partnership between the municipal bodies and not-for-profit organizations in other public spheres;
- Building a network of organizations working for the social reform;

BCNL also continued its work on improving the legislation for NGOs in Bulgaria.

The team of the Center continued to provide legal assistance to not-for-profit organizations and to work for the correct implementation of laws and for raising the trust in the third sector. BCNL provided methodological assistance to several municipalities in Bulgaria in organizing and carrying out competitions for contracting out social service provision.

OUR WORK IN 2004

1. Working on improving the legislation for non-profit legal entities

- The practice on the application of the **Law on Non-Profit Legal Entities (LNPLE)** has shown that there were some problems obstructing the work of the not-for-profit organizations. The campaign for amendments to the law, which started back in 2003, raised a large public discussion on the topic. The main proposals for amendment of the Law are related to facilitating the process for convening a General Assembly, drawing a clear distinction between the mandate of bodies of associations and those of foundations as well as clarifying some regulations concerning the public benefit organizations. In June 2004 the proposals for amendments of the law were submitted to the National Assembly and the Commission on Civil Society Issues passed them on first reading. The leading commission for amendments to the LNPLE is the Commission on Legal Issues which, unfortunately, has not yet reviewed the proposals.

- The draft for amendments of the Law for the Healthcare Institutions was voted on first reading in the Healthcare Commission in 2004. It will allow public benefit not-for-profit organizations to receive the status of healthcare institutions. BCNL has been working on this problem since 2002 when the proposals were drafted in a working group and were subject to several public discussions. Comparative legal analyses prepared by BCNL experts showed that in most EU member states, in USA and Canada healthcare institutions could function as not-for-profit legal entities too.

- A priority in the legislative work of the BCNL is **the tax regime for not-for-profit organizations**. The initiatives for reducing the tax burden for public benefit NGOs and encouraging their potential donors continued in 2004 and a number of proposals were developed for amendment to the Corporate Income Tax Law and the Value Added Tax Law. Unfortunately, for the most part these proposals were not passed. Nevertheless, the National Assembly passed some positive amendments in the taxation of corporate donations and the possibility for payroll

giving has been legally regulated (without the obligation to submit an annual tax declaration to claim tax benefits). From 2005 the corporate donors will be able to account their contributions to public benefit organizations as expenses and they will be exempt from tax on donations (15% in 2004). Only when the amount of the donation exceeds 10 per cent of the financial result, the exceeding amount will be subject to corporate tax. Another novelty in the tax treatment of donors is the dropping out of mutual benefit nonprofit legal entities with charitable, social, environmental, medical, scientific-research, educational, cultural and sports purposes from the category of subjects which, as beneficiaries of donations, entitle their donors to tax reliefs for donation.

2. Promoting partnership between local authorities and NGOs

From its very beginning, the Bulgarian Center for Not-for-Profit Law works for encouraging the partnership between local authorities, the state and the not-for-profit organizations. A number of studies have been made in this area, a lot of meetings and discussions have been held throughout the country.

In 2004 a large part of the projects implemented by BCNL were related to encouraging different spheres of partnership in the work of local authorities and NGOs which would simultaneously raise the quality of public services and encourage the role of the non-governmental sector in searching for solutions to local and national problems.

- **Municipal Ordinance for Interactions with NGOs**

The Bulgarian Center for Not-for-Profit Law, together with the Open Society Club in Ruse have initiated a public debate for passing a Municipal Ordinance in the town of Ruse to regulate the possibilities for organizing competitions and the allocation of funds for NGOs in areas other than social services. The Ordinance has been drafted in the framework of a joint project with Open Society Institute – Sofia. It will include criteria for holding competitions for municipal financing of NGOs and methods for selecting the winning applicants. The draft Ordinance will be put up for discussion at a municipal session in May 2005. When drafting the Ordinance, BCNL made a survey of municipal

practices in Bulgaria for partnership and financing of NGOs, the ways in which this has been achieved as well as the areas in which this has been done. The collected information was used by the working group for drafting the text of the Ordinance. The full text of the survey is published in Bulgarian on: www.bcnl.org/social.

- Survey of the possibilities of NGOs to participate in public procurement procedures

The Bulgarian Center for Not-for-Profit Law made an analysis of the legal framework of public procurement. It reflects the new legislative framework introduced with the Public Procurement Act in force since 01.10.2004 and its related secondary legislation. The analysis has been published at the beginning of 2005 in the form of questions and answers whose focus is the possibility for NGOs to participate as contractors and to be contractees in public procurement procedures. In order to make the booklet more practically-oriented a series of meetings were held in the course of its drafting with the Public Procurement Agency (PPA) that provided support for clarifying the regulatory novelties applicable to NGOs. Specific case studies were discussed for participation of NGOs in public procurement. The novelties in the public procurement area were clarified in plain language for NGOs to be able to appraise the possibilities provided by public procurement and to become involved.

- Social contracting between the state and NGOs

A key highlight in the BCNL work in 2004 was the encouragement of social contracting between the state and NGOs. BCNL had an active role in the process of



advocacy before various public institutions and local authorities with a view to organizing competitions for contracting out the provision of social services by NGOs.

More than 20 trainings have been organized for representatives of local non-governmental organizations and municipal staff in order to acquaint them with the possibilities available through the current legal framework for contracting out social services. In the municipalities of Veliko Turnovo and Stara Zagora was initiated the development of social profiles reflecting the local social service delivery, and measuring the needs of users, the existence of social service providers and their capacity, etc. Representatives of public institutions, municipalities and NGOs active in that area took part in making the surveys. The aim of the social profiles is to become the basis of future municipal strategies for development of local social services.

- The first competition for contracting out social services in Bulgaria

The first pilot competition for contracting out social services in Bulgaria was organized in the municipality of Smolyan by BCNL with the support of the municipality and Open Society Club – Smolyan. The competition was held in March 2004. The competition took place with the financial assistance of the European Union, the Phare Civil Society Development Program 2001 through the project “Social Services in Bulgaria – New Opportunities for Development” which was implemented by the Bulgarian Center for Not-for-Profit Law in December 2003 – July 2004. In organizing the competition, BCNL experts were strictly adhering to the legislative framework set out in the Social Assistance Act and its Implementing Regulations in order to demonstrate how the new legal regulations were working in practice.

The subject of contracting in this competition was the provision of community-based social service for the period from May 1, 2004 to July 30, 2004 in line with the needs of the population in the municipality of Smolyan and with a requirement that the social service should be provided without collecting any fees from users. The funding provided for this purpose amounted to 4700 leva.

For a period of three months 20 people on the territory of the municipality of Smolyan who had suffered a cerebrovascular accident were using completely free the social services envisaged according to the approved project of Association “Development 21st Century” which included regular visits of a doctor, rehabilitation therapist and psychologist, as well as ongoing provision of medicines and food. Users’ relatives also received assistance as they were trained and consulted on how to apply partial methods of rehabilitation. Such a service is provided for the first time on the territory of the municipality of Smolyan.

- The competitions across the country in 2004

At the end of 2004 BCNL helped the municipalities of Pazardjik, Drianovo and Byala Slatina organize 7 of the first competitions in Bulgaria for contracting out of social services. BCNL experts prepared the complete set of competition documents and provided full technical and logistic support to the municipal staff in the course of the procedures themselves. One of BCNL experts was invited to participate in a commission for candidates’ assessment. Additionally, specific rules for transparency were prepared when holding the competitions along with the contracts to be signed with the winning applicants.

The start of the first competitions in Bulgaria turned into a catalyst for the spreading of successful examples and experience among the other municipalities and the implementation of social contracting at local level. Subsequently, interest was expressed by the municipalities of Triavna, Karlovo, Pernik, etc.

Serious efforts were made to encourage the setting up and strengthening of already established public councils in the area of social assistance with a view to their future role of active generators of local social policies.

- Partnership with the Ministry of Labor and Social Policy (MLSP)

In the course of the work for encouraging social reform BCNL established lasting cooperation with the various state institutions with a mandate in this area. In 2004 a partnership agreement was signed between BCNL and the Ministry of Labor and Social Policy for joint

work aimed at achieving real decentralization of social services and the development of new, alternative forms of social services. The key goals of the partnership are improving the quality of the delivered social services through active awareness work among the representatives of the not-for-profit sector and the staff in state and municipal bodies, as well as the development of know-how for efficient application of a mechanism for contracting out of social services through competition.

- A study of the possibilities for funding of NGOs – social service providers

In November a brief study was made by BCNL experts on the possibilities for funding of social services by the various state funds in Bulgaria, including the Social Investment Fund, the Social Assistance Fund, the Agency for People with Disabilities, etc. The study was presented at different workshops and seminars and is available on the website for social services www.bcnl.org/social.

- A national network for social services

On September 24th, 2004 at a meeting in the village of Arbanasi, BCNL and Open Society Institute – Sofia initiated the setting up of a network involving organizations from all over Bulgaria that are actively working for development of the reform in social service provision. The idea for the establishment of an informal network for social services arose from the need for effective implementation of the new legal framework in social service provision.

As representatives in the network, the organizations have access to current local practices in relation to organizing competitions, registering new social service providers, their work at local level, as well as all the other news in the area of social services.

In 2005 a Second Networking meeting is to be held in Sofia. A list of member organizations is published on the specialized website of the network on: www.bcnl.org/social

3. Trainings

In 2004 BCNL organized 22 seminars on the territory of Bulgaria. BCNL experts were invited as lecturers to 6 other trainings. The seminars were attended by 959 participants – representatives of not-for-profit organizations and practicing lawyers, municipal, state and tax



officers, financial officers and MPs. Seminars were held in Burgas, Plevna, Veliko Turnovo, Smolyan, Kyustendil, Vidin, Ruse, Sofia, Gabrovo, Stara Zagora, etc.

4. Consultations

In 2004 BCNL provided legal assistance to around 400 organizations in relation to the application of the NGO Law, labor legislation, taxation and other issues. With the support of BCNL, 242 organizations were registered in the Central Registry for public benefit organizations in the Ministry of Justice. Consultations were given by phone and email to organizations from across Bulgaria. In 2004 alone a total of 31 new not-for-profit organizations were registered and 15 re-registrations were made with the help of BCNL.

BCNL provides expert assistance to the Union of People's Chitalishta (Community Centers) for the drafting of a National Concept Paper for the Development of Chitalishta which will be presented at the regular Congress of the Union of People's Chitalishta in 2005.

5. Information services

- www.bcnl.org

The BCNL website is continuously updated with the current news in the sector and changes to the legislation. A summary is published on a regular basis for each of the legal analyses together with sources where additional information can be obtained. Every website visitor can ask the question s/he is interested in and receive a competent answer related to the legal framework of the not-for-profit organizations through the electronic forum. The website is accessible in Bulgarian and in English. The average number of monthly visits at the website amounts to 2700. BCNL website is part of the project for legal websites of the European Foundation Center and that is why the English version of the website includes a special section on the general legal framework of the not-for-profit organizations in Bulgaria.



- www.bcnl.org/social

A specialized website for social services – www.bcnl.org/social – was created under the platform of the official BCNL website. This specialized website facilitated the exchange of information and the permanent contact between network participants. The website serves as an information show-case where everyone can get free access to information on current

affairs in the area of social services from all over the country, as well as search in the up-to-date legal framework of social services.

6. Publications

BCNL has a rich library of surveys and analyses concerning the legal environment of not-for-profit organizations in Bulgaria and around the world.

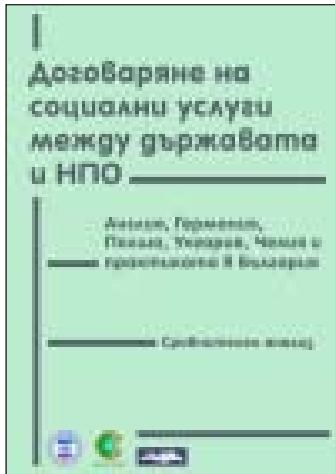
In 2004 BCNL released the following publications:

- **Legal framework of social services in Bulgaria – Questions and Answers.** The book was published in a circulation of 1000 copies and includes the responses to 67 topical questions related to the delivery of social services in Bulgaria, the requirements for registration of service providers, the financing and possibilities for contracting social services with not-for-profit organizations. The publication includes some key



legal definitions and the active legislation. The analysis has been translated into English and published on the BCNL website. The edition was sent round to all the municipalities in the country and was also distributed by the Social Assistance Agency.

- **Contracting of social services between the state and the NGOs.**



England, Germany, Poland, Hungary, the Czech Republic and the practices in Bulgaria. The legislative framework and successful practices in five European countries were studied with the help of foreign experts. The topic of analysis was the provision of social services by Bulgarian nongovernmental organizations and the relationships with local authorities. The book aims to encourage social contracting on the part of the state and local authorities and to stimulate innovation and pro-activeness in making and implementing local social policy. The book was published as a luxury edition with a circulation of 1000 copies.

- **Taxation of NGOs in Bulgaria** – the tax regime of not-for-profit organizations is set out in clear and plain language pertaining to the legislative framework of 2004. The purpose of the publication is to answer all questions related to the tax liabilities of the not-for-profit organizations.

- **NGOs and VAT** – the booklet offers answers to questions related to the topical issue of VAT taxation of not-for-profit organizations. The publication includes examples to illustrate the VAT mechanism in a more user-friendly way.

7. BCNL projects in 2004

• **Creating a Favorable Legal Environment for Not-for-Profit Legal Entities 2001 – 2004**

The three-year project of BCNL with a main goal of improving the legal and tax environment for non-profit legal entities ended in 2004. As a result of the project a number of proposals have been drafted for amendment to laws concerning the activity of not-for-profit legal entities. In 2001 and 2002 amendments were passed with the active involvement of BCNL, among others, in the tax laws encouraging NGOs and their donors. A number of trainings were made for NGOs across the country for raising their capacity and improving their legal culture. An ongoing internship program was organized for training in not-for-profit law for students from law faculties. The project has been implemented with the financial support of the International Center for Not-for-Profit Law and the United States Agency for International Development (USAID).

In April 2004 a final conference was organized in Sofia where the invitees included BCNL partner not-for-profit organizations, MPs and staff from public institutions who participated in various forms in the implementation of project activities.



• **Social Services in Bulgaria – New Opportunities for Development**

The eight-month project **Social Services in Bulgaria – New Opportunities for Development** funded through the Phare Civil Society Development Program ended in July 2004. The main goal of the project was to develop the system of social services in Bulgaria and to encour-

age partnership between not-for-profit organizations and municipalities in social service delivery. The partner of BCNL in the implementation of the project was Open Society Club – Smolyan. As a result of the activities a publication was made on the legislative framework of social services in Bulgaria, five trainings were held on the legal framework for social service provision in the towns of Smolyan, Vidin, Kyustendil, Bourgas and Stara Zagora. A competition was organized for selection of social service provider in the municipality of Smolyan. As a result of the competition the team of the *Development in the 21st Century* Association provided social services for a period of three months to persons from the Smolyan region who have suffered a stroke.

- **Raising the Capacity of the Administration and NGOs for Delegating/Taking on Social Services**

The project **Raising the Capacity of the Administration and NGOs for Delegating/Undertaking on Social Services** which is implemented jointly by the Bulgarian Center for Not-for-Profit Law and Open Society Institute Sofia started in June 2004. The local partners of the project are Open Society Club – Veliko Turnovo and Open Society Club – Ruse. The project will have a one-year duration and will end in May 2005. The project aims to raise the capacity of the local authorities towards encouraging decentralization, intensification of the partnership between NGOs and municipalities and encouraging “social contracting” between them.

The expected results are related to strengthening the possibilities for partnership between municipal bodies and the representatives of the so-called “third sector” with regards to decentralization of the areas of public importance such as welfare, healthcare, culture, education, etc.

- **Social Contracting**

BCNL is starting the **Social Contracting** program which will end in 2006 in partnership with *Counterpart Bulgaria*. The program aims to develop the process of social contracting in municipalities with functioning public funds and is aimed at developing a model for contracting out social services from the local authorities to non-governmental organizations. The program started in two pilot municipalities – Gabrovo and Stara Zagora – and later on the municipality of Dryanovo has

joined them. A study tour in Poland was organized in the framework of the program with representatives of the local authorities and active functioning NGOs. The purpose of the study tour was to get acquainted with successful examples of social contracting in one of the new EU member states which had a level of social and economic development similar to that of Bulgaria.

A key initiative in the framework of the Social Contracting program is promoting the process of decentralization of social services. The team of the program supports local authorities to implement the process of social contracting by organizing competitions to contract out the delivery of social services to NGOs. Assistance was provided for the setting up of a Public Council in the town of Gabrovo. The project is funded by USAID.

• **New Perspectives for Vulnerable Groups – Raising the Quality of Social Care and Supporting the Social Enterprises**

In December 2004 BCNL started a new project funded by the EU through the Phare Civil Society Development program 2002 which has a duration of 18 months. The project is implemented in partnership with Program and Analytical Center for European Law Foundation. **The main goal** of the project is overcoming the social exclusion of the vulnerable groups which will be achieved by working in two directions: creating a favorable environment for development of social enterprises and setting up a mechanism for quality control in the provision of social services. The end product of the project is the development of a pack of legislative measures for support of social enterprises and developing a system for control on the observance of quality standards for social services.

The main activities envisage analysis of the Bulgarian legislative framework with regards to social entrepreneurship and control on the observance of quality standards for social services. The European experience for support of social enterprises and regulating their legal status will be studied as well as the different models for quality control of social services. This will provide a good expert basis for drafting the proposals for legislative changes, both in terms of social enterprises and the control system for service quality. These will be developed

through the work of two ad-hoc groups that will be working independently of each other.

- **Municipal Model of Partnership between the State, Local Authorities and NGOs in Decentralization of Social Services for Offenders**

At the end of 2004 BCNL signed a contract with Regional Fund IGA – Pazardjik for joint implementation of a project funded by the British Department for International Development for setting up a model for social contracting between the state, local authorities and nongovernmental organizations in providing specialized services to offenders. BCNL experts are to make a research on the possibilities for funding and decentralization of social services for this particular target group – offenders.

FINANCIAL REPORT

PROFIT AND LOSS STATEMENT as of 31 December 2003

Bulgarian Center for Not-for-Profit Law

	Current Year in leva	Previous Year in leva
INCOMES		
1. Incomes from incorporation	0,00	0,00
2. Incomes from financing	169 072,56	131 287,62
3. Incomes from donations	1999,50	0,00
4. Incomes from for-profit activity	20 357,88	13 471,82
5. Incomes from currency transactions	1294,81	818,83
6. Incomes from interests	119,89	109,11
7. Incomes for future periods	0,00	0,00
Total income	192 844,64	145 687,38
EXPENSES		
1. Expenses on incorporation	0,00	0,00
2. Expenses on financed activity	170 390,48	131 287,62
3. Expenses on for-profit activity	5871,99	1215,79
4. Expenses on currency transactions	924,54	6303,36
5. Other financial expenses	681,58	812,45
6. Tax Expenses	2824	2880,17
Total Expenses	180 692,59	142 499,39
REMAINDER FOR THE NEXT PERIOD	12 152,05	3187,99

BALANCE

of the Bulgarian Center for Not-for-Profit Law
as of 31 December 2003

	Current Year	Previous Year
	in leva	in leva
ASSETS		
Long-term Assets		
1. Long-term Tangible Assets	4664,3	8805,53
2. Long-term Intangible Assets	1162,55	3152,68
3. Long-term Financial Assets	841,43	11958,21
Total Long-term Assets	6668,28	
Short-term Assets		
1. Cash	77,05	
2. Funds in Bank Accounts	390,47	62211,75
3. Deposits Granted	73075,67	156,00
4. Receivables	57,01	38,60
5. Expenses for Future Periods	4965,81	5476,35
Total Short-term Assets	78 488,96	67 959,75
Total Assets	85 157,24	79 917,96
LIABILITIES		
1. Liabilities to the Budget	570,98	1577,49
2. Social Security Liabilities	54,88	93,00
3. Personnel Liabilities	0	0,03
4. Liabilities to Suppliers	2,93	3,93
5. Other Short-term Liabilities	0,00	0,00
6. Financing	54336,14	42455,32
Total Liabilities	54 964,93	44 129,77
Incomes for Future Periods	0,00	0,00
Total Liabilities	54 964,93	44 129,77
Net Asset Value	30 192,31	35 788,19
including		
Capital in Long-term Assets	3978,92	12 187,25
Reserves	26 213,39	23 600,94
Total	30 192,31	35 788,19

WHO IS WHO

STRUCTURE AND MANAGEMENT

BOARD OF TRUSTEES

Stephan Klingelhofer – Chairman

Vyara Mukova – Toneva

Radost Toftisova – until January 2005

Ivo Hristov – since January 2005

David Moore

Luben Panov, BCNL Director, *ex officio* member

DIRECTOR

Luben Panov



TEAM

Luben Panov – Director

Tony Dimov – Legal Consultant

Nadia Shabani – Legal Consultant

Marieta Dimitrova – Legal Consultant

Andriana Petrova – Legal Advisor

Mira Ivanova – Financial Expert

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FOR
NOT-FOR-PROFIT LAW**

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