



INTRODUCTION

There are many reasons why 2010 could be the year of innovation in Bulgaria: (1) the 2008-2009 crisis has significantly altered the economic map of the world, marked the end of two decades of continuous economic growth and created unprecedented opportunities for repositioning of the national economies; (2) Bulgaria faced the crisis in fine general macroeconomic shape but now needs to turn this advantage into a good macroeconomic platform by modernizing public administration and developing long-term growth policies and priorities; (3) the European Union consolidated its institutional development and the newly established European Commission is initiating the negotiations on Union policy and budget for the period up to 2020. The year is bound to be a hard one for the Bulgarian economy and the decline in national budget revenues will continue; still, now is the time to formulate Bulgaria's 2020 goals and to prioritize market and social innovation as a means of attaining them. Only in this way would Bulgaria speak the same language as the most advanced economies in the world and would be able to improve the standard of living and welfare of its citizens.

The annual *Innovation.bg* report provides a reliable assessment of the innovation potential of the Bulgarian economy and the situation and development capacity of the Bulgarian innovation system. It puts forward recommendations for an improved public policy on innovation in Bulgaria and EU drawing on the latest international theoretical and empirical research while taking into account the specific economic, political, cultural, and institutional framework in which the country's innovation system is operating. For a sixth consecutive year the report aims to be a part of the process of raising awareness of the importance of innovation as a factor for national competitiveness and to serve as the basis for development of national priorities supporting the implementation of the new EU 2020 Strategy.

The report is intended for leaders and decision-makers in the public and private sectors. The present edition, *Innovation.bg 2010*, examines the impact of the crisis on innovation activity in the Bulgarian economy and suggests possible

directions for Bulgarian innovation policy over the next decade. Following the established methodology of the four preceding editions, *Innovation.bg 2010* analyzes the state and development capacity of the national innovation system based on five groups of indicators:

- overall innovation product;
- entrepreneurship;
- investment and financing of innovation;
- human capital for innovation;
- information and communication technologies.

Innovation.bg 2010 presents an updated **Innovation Index of Bulgarian enterprises**. The Index is based on findings of the annual surveys of innovation by Bulgarian businesses conducted by the Innovation Relay Center with the Applied Research and Communications Fund (ARC Fund), panel data, and statistical analysis. The Report was reviewed and approved by the Expert Council on Innovation with the Applied Research and Communications Fund.

Methodologically, *Innovation.bg* is based on several existing models in the assessment and comparative analysis of innovation systems: 1. The European Commission's *European Innovation Scoreboard*. 2. The *Science, Technology and Industry Scoreboard* of OECD. 3. The US *National Innovation Initiative*; and 4. *Executive Index of the Massachusetts Innovation Economy*.

More extensive methodological notes and the sources of information are presented in Appendix 1. The theoretical rationale for the structure of the report is provided in greater detail in *Innovation.bg: Innovation Potential of the Bulgarian Economy*, ARC Fund (2005).