

2011

Annual Report



Applied Research and Communications • Fund •

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# **Applied Research and Communications Fund 2011 Annual Report**

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# Introduction

Applied Research and Communications Fund's mission is to foster social, business and technological innovations, to provide research-based policy solutions and to facilitate the development of a knowledge-based society.

ARC Fund is proud to announce that 2011 marks the 20th anniversary since its foundation. Throughout these years, ARC Fund has continued and expanded its efforts to improve the knowledge economy, foster an innovative culture, as well as the internationalization of public institutions and private sector businesses. Specifically, ARC Fund has enhanced its capacity to effect positive change in the country through the use of the most modern public policy development tools based on European and global best practice. This consisted of legitimizing public policy decisions by the provision of a venue for democratic deliberation by bringing together key stakeholders from government, industry and civil society into a constructive dialogue. Strengthening the interface between the government, businesses and civil society is an essential precondition for developing inclusive stakeholder-driven public policies and thriving private sector. ARC Fund helps promote this interaction in order to improve economic opportunities in the country that respect environmental and social challenges. Exposing the merits and faults of ideas and opinions to each other in a transparent venue with the ability to act on results, is an essential foundation to the achievement of ARC Fund's goals.

However, strengthening this process does not only come about in a top-down way through deliberative public policy development. ARC Fund recognizes this fact as it continually supports activities in the country which aim to encourage involvement even at the grassroots level. With respect to supporting the innovation and knowledge economy, the organization undertakes specialized trainings for professional groups in the country as well as provides technology brokering, innovation incubation and consulting services to Bulgarian and foreign companies. At present over 5,000 clients benefit from ARC Fund's offerings. With respect to the strengthening of civil society, ARC Fund undertakes projects which help to demonstrate the value of technology in strengthening governance (such as e-governance), those which help to decentralize and democratize informational inputs into the policy-making process (for example through online social networks), and in improving the competitiveness of Bulgarian businesses (through the facilitation of partnerships and the transfer of knowledge and international best practice). By supporting these societal pillars from multiple entry points, ARC Fund aims to increase their interaction in order to check and balance each of them into providing optimal societal outcomes for Bulgaria and Europe.

## ***Policy Impact***

Throughout 2011, ARC Fund continued its efforts to provide the most up-to-date information and analysis to Bulgarian policy-makers in innovation, science and technology policy. Of particular importance was the development and presenta-

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tion of the 2011 Innovation.bg report, which identified both the positive trends, as well as the challenges, to innovation in the country. This analysis was presented to policy-makers at the Seventh National Innovation Forum in Sofia. ARC Fund's expertise was also utilized by the Ministry of Economy, Energy and Tourism in the development of the Law on Innovation. A draft version of this law was presented for discussion among the Bulgarian authorities at the end of 2011 and is currently under discussion.

ARC Fund worked closely with government agencies on improving the information society in the country, including the Ministry of Transport, Information Technology and Communications. ARC Fund is represented on the ICT Consultative Council at the Ministry, where it provided information on current developments of ICT in Bulgaria as well as offers advice to improve broadband and penetration of ICT in the country.

ARC Fund also took an active civic role in Bulgaria through its efforts to encourage the safe and responsible use of internet and mobile technologies and its cooperation with the Ministry of Interior to prevent child abuse online. ARC Fund was instrumental for the provision for a register of sexual abusers of children in the new Child Protection Act, which is under discussion in the Parliament. Nearly 5,000 Facebook users supported the cause, which makes it one of the most popular policy causes after the environmental ones. ARC Fund's long-time advocacy campaign on the Council of Europe's Convention on Protection of Children against Sexual Exploitation and Sexual Abuse finally resulted in ratification by the Parliament in November. Through its coordination of the **Safer Internet Center (SIC)**, ARC Fund helped raise awareness among children, parents, teachers and other professionals through the development of educational materials, organizing information campaigns, monitoring emerging trends in informational use, and supporting cooperation between relevant stakeholders. As part of the SIC, in 2011 the **Bulgarian Safer Internet Hotline** received over 600 reports of illegal and harmful content and numerous reports were transferred to the appropriate authorities and partner hotlines in other countries, which led to several law enforcement actions and convictions. The **national Helpline** has consulted over 320 clients since its launch in April.

### **Impact on Firm Level**

ARC Fund is also heavily involved in the provision of business support services to enterprises. This is evidenced by the fact that ARC Fund is the coordinator of the **European Enterprise Network (EEN)** in Bulgaria, which consists of 14 partnering organizations from 8 cities. The EEN is Europe's largest business support network and helps SMEs internationalize, innovate and gain information about available EU finance and funding opportunities, consulting, matchmaking, internationalization and business optimization services. In 2011, ARC Fund delivered services to over 200 companies in these areas. The economic sectors covered included manufacturing, ICT, tourism, aviation, and management consulting. ARC Fund also organizes matchmaking and technology brokerage events and facilitates the participation of Bulgarian SME's in them. ARC Fund services resulted in new contracts for Bulgarian companies in Azerbaijan, Belgium, Germany, Poland and Turkey.

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About a dozen aviation firms benefited from funding by the Ministry of Economy, Energy and Tourism for participation in the largest light-aviation fair in Friedrichshafen in April 2011, which was promoted by ARC Fund and the Bulgarian Association of Light Aviation.

In addition, the **annual Innovation Award** is presented by ARC Fund at the annual Innovation Forum to businesses for technological or process innovations over the preceding year in order to highlight and recognize Bulgarian innovators. In 2011, first prize went to PRIMAVET Sofia Ltd. in the 'Small Innovative Enterprise' category (up to 50 employees) for innovations in veterinary medical products for bees, pets and farm animals. First prize also went to OPTIX Co in the 'Medium and Large Innovative Enterprise' category (over 50 employees) for their work on thermal vision devices. A special award was given to ORAK Engineering for sustainable innovation with respect to their work on software for tourism management.

### **International Impact**

ARC Fund's activity at the European level also extended to ERAWATCH and the Regional Innovation Monitor (RIM) through the aggregation and analysis of RTDI policies and activities in Bulgaria. Such work allows for international benchmarking exercises as well as the transfer of best practices within Europe, and shows the important role that ARC Fund plays in providing a transparent and independent analysis on economic developments within the country. ARC Fund's coordination of the Network of Business Incubators and Technology Parks in Eastern Europe and Central Asia (ECAbit) from 2008 to 2011 positioned the network as a trusted, reliable and valuable partner for policy makers in the Commonwealth of Independent States and to international donors and organizations by working with all stakeholders in public and private sectors and NGO's. During 2011, ARC Fund helped to initiate 'Mobile Monday' chapters in Moldova and Azerbaijan.

Over the past 10 years, ARC Fund has been continuously increasing its competencies in future-oriented studies through the use of best practices in foresight methodologies and tools in public policy development. This has culminated in coordination and partnership roles in over twelve EU funded projects, which utilize foresight elements. In 2011, ARC Fund made use of these tools in areas such as: parliamentary technology assessment, environmental policies, food quality and safety, citizen participation in identifying European research priorities, and in the identification of new energy sources. These projects range from the joint identification of future environmental priorities between the EU and China (SPRING), to increasing the use of technology assessment among European parliaments when formulating scientific and technological policies (PACITA). ARC Fund also participated in the RIFI project on "Research Infrastructures: Foresight and Impact", which concluded in 2011 with the main result being a methodology for assessing the socio-economic impacts of future research infrastructure projects.

ARC Fund provides policy assistance to the Ministry of Economy and Regional Development and the National Agency for Regional Development on innovation scanning of Serbian SMEs in order to identify and address barriers to innovation at firm level.



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## Human Capital

In 2011, ARC Fund continued its tradition of promoting a multi-cultural work environment by employing motivated and skilled individuals with diverse interests and skills from around the world. The organization employed PhD and master's students from Europe and the USA as well as experienced engineers, computer scientists, economists, sociologists, political scientists and media experts. The ARC Fund staff includes professors and lecturers which taught at some of Bulgaria's most prominent education institutions, including: Sofia University, the University of National and World Economy, American University in Bulgaria and the International Business School. About one-third of ARC Fund's staff either hold or are pursuing a PhD degree. The staff has worked and studied in countries, which include the United States, Netherlands, Austria, Japan, Russia and UK. Additionally, ARC Fund employed individuals who served as independent evaluators to the European Commission for various EU programs.

### ARC Fund Highlights for 2011

- The **Seventh National Innovation Forum** entitled Innovation and Competitiveness was held in May, 2011 and was co-organized by ARC Fund, the Representation of the European Commission in Bulgaria, and the Ministry of Economy, Energy and Tourism. The forum was attended by the Prime Minister of Bulgaria, Mr. Boyko Borisov, who described the steps that the government was taking to support innovation in the country. The event was also attended by government Ministers and representatives from the European Commission, as well as business leaders, high level academicians and the heads of leading civil society organizations. ARC Fund presented the findings of the annual study of innovation in Bulgaria in the 2011 version of the Innovation.bg report.
- The **2011 Innovation.bg report** was presented at the Seventh National Innovation Forum. The report highlighted some positive trends for innovation in Bulgaria, including high growth rates shown in the innovation index of the European Commission and that the economic crisis in Bulgaria resulted in increased competition in Bulgarian markets, resulting in marketing and organizational innovations.
- The **Parliaments and Civil Society in Technology Assessment (PACITA)** project began during the year. The project aims to spread and deepen the understanding of parliamentary technology assessment and technology assessment to policy-makers across the EU with a particular emphasis on countries where the concept as well as its methodologies and tools are not well established. The project will run until 2015.
- The **Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region (EVAL-INNO)** project started in May, 2011. The main objective of EVAL-INNO is to improve the evaluation capacity of research, technological development and innovation (RTDI) activities in order to improve their efficient provision of societal benefits. The project will run until 2014.

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- As part of the **Scoping China's Environmental Research Excellence and Major Infrastructure: Foresight, Potentials, and Roadmaps (SPRING)** project, an international workshop took place in Beijing, China in July, 2011. The workshop was attended by environmental experts from China and Europe, who identified key environmental technologies likely to improve the quality of life for European and Chinese citizens over the next 20 years.
  - The **Third Aviation Show Gabrovo 2011**, was co-organized by ARC Fund, the Bulgarian Association of Light Aviation, and the owner of the airport "Draganovtsi", Mr. Miroslav Hinkov, in partnership with the Municipality of Gabrovo. During the airshow, a sectoral meeting entitled 'Investing in the aviation industry' was held which brought together representatives of the Bulgarian SME Promotion Agency and Bulgarian Association of Light Aviation.
  - ARC Fund developed the annual **ERAWATCH Country Report 2011** which reviews the performance of the national innovation system over the year and identifies challenges and bottlenecks to an improved environment the country that is supportive of innovation.
  - During the year, ARC Fund joined the **METRIS** network, an initiative of the Directorate-General for Research (DG RTD), which aims to be the leading repository of information on the health of social sciences and humanities across Europe as well as a foundation for benchmarking development in these areas in the attempt to improve public policies which support them.
  - A number of significant events occurred within the **Eastern European and Central Asian Business Incubators and Technology Parks Network (ECAbit)**. These included the Tambov International Innovative Camp held from August 24th-26th in Tambov, Russia in which a number of business support services were provided to over 150 participants, as well as the network's Sixth International Conference Advancing Innovation in Eastern Europe and Central Asia from November 6th-8th in Chisinau, Moldova and International Conference on Youth Incubation in December in Baku, Azerbaijan, where ARC Fund was co-organizer.
  - The Safer Internet Centre (SIC) launched the national Helpline in April, 2011 which responds to the questions and concerns of young people, parents and teachers linked to minors' experiences online.



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**PART ONE**  
**Program Areas**



# Science, Innovation and Information Society

Throughout 2011, ARC Fund continued its efforts to provide the most up-to-date information and analysis to Bulgarian policy-makers in innovation, science and technology policy.

## Innovation.bg



The annual Innovation.bg 2011 report provides a reliable assessment of the innovation potential of the Bulgarian economy and the state 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 seventh consecutive year the report raises the awareness of the importance of innovation as a factor for setting national priorities in the implementation of the new EU 2020 Strategy.

The report is intended for decision-makers in the public and private sectors. Following the methodology established by the four preceding editions, Innovation.bg 2011 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.

In addition, the *Innovation.bg 2011* report for the first time analyzes the innovation potential of two economic sectors (construction and energy), taking into account the characteristics of the value added

chains and the interaction within the sectoral innovation systems. To achieve an impact on the speed and effect of innovation through national and sector policies (by means of well-considered regulation, educational and scientific technological priorities, fiscal and tax framework, and rules of public-private partnership) it is necessary to understand the mechanism of innovations at company and sectoral level.

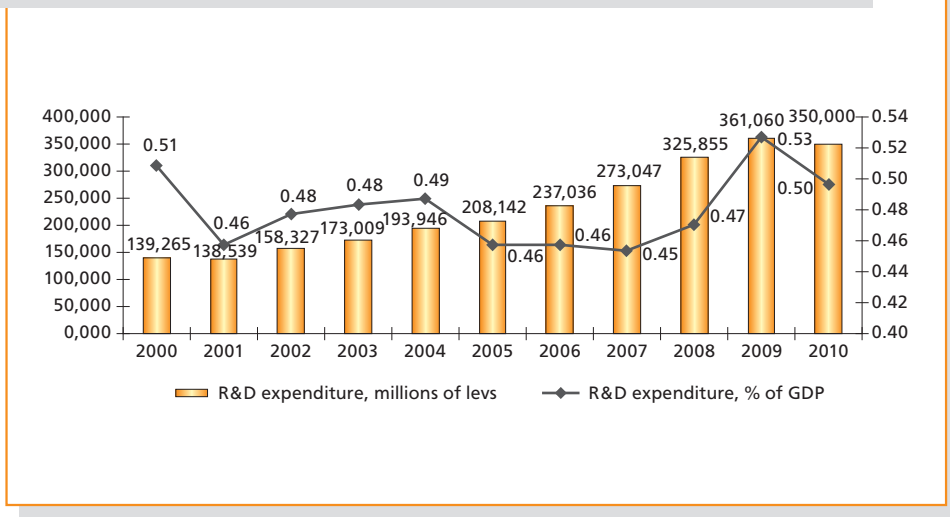
The analysis of sectoral innovation systems provides evidence of the essence and significance of innovation activity at the companies, thereby supporting the establishment of sector-based innovation-oriented policies and measures. Devising mechanisms of impact – ones that have not been imposed from with-

out but are instead the result of and have been indicated by the transformation processes in the relevant sectors –

ensures a healthier environment for the functioning of the innovation ecosystem as a whole.

### Innovation Potential of the Bulgarian Economy

**Figure 1. R&D EXPENDITURE IN BULGARIA**



There are some positive trends in the R&D indicators, although these are not particularly dynamic and are the result of market forces not of a scientific, technological and innovation policy. These could be cancelled by the economic crisis if measures for improving public innovation policy are not undertaken. Along with the constant increase of funds for R&D in all institutional sectors, the following structural changes can also be noted:

- Increasing share of the business and higher education in R&D expenditure at the expense of the state sector;
- R&D expenditure distribution is spread out more evenly by planning regions in the country.

The main challenges are related to the chaotic nature of the changes in public policy, inconsistency in the funding of individual scientific fields, as well as the weak institutionalization of the measures. Since funding reflects the location of human resources, the indicators of staff engaged in R&D demonstrate the same structural changes in respect to the institutional sectors and the regions in the country.

Funding for science and innovation remains below the level required to improve the innovation potential of the national economy which could result in lower growth in the future.

*Innovations in support of sectoral competitiveness*

This year's *Innovation.bg* report provides two analyses of sectoral innovation systems and the results of the innovation activity of companies there - construction and energy.

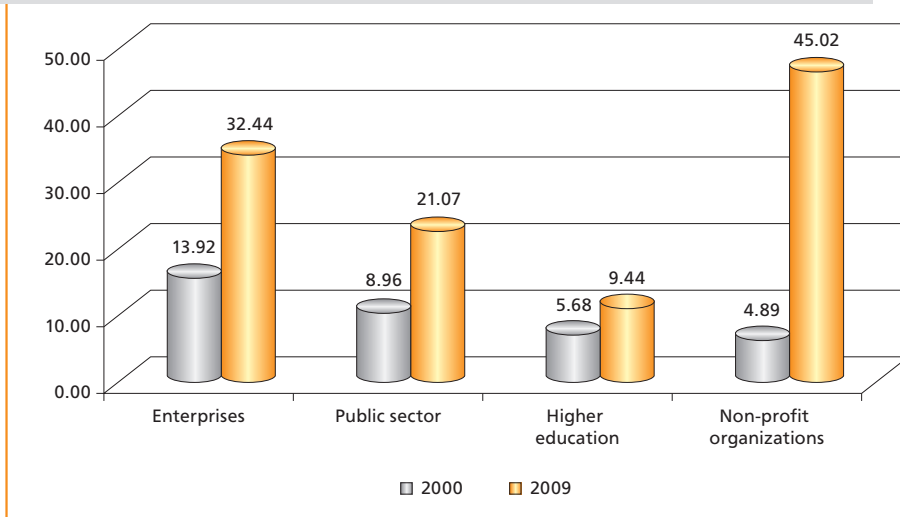
- The two sectors and the activities related to them along the global value added chain provide considerable employment, attract a lot of foreign direct investment and contribute to the formation of an essential portion of the country's GDP.
- Both sectors are key for the long-term competitiveness of the national economy – by means of developing the living and working environment; transport and energy infrastructure, as well as environmental impact (in the case of construction) and through energy efficiency, energy balance and the country's energy security in the case of the energy sector.

Construction and energy are developed on the basis of a diversified set of technologies which are at different stages of development. Although not formally conducting research, the business in the two sectors has a considerable potential to absorb technological knowledge generated in other fields and to introduce it in practice.

The results of the sectoral analyses suggest recommendations for the national innovation policy along several main lines:

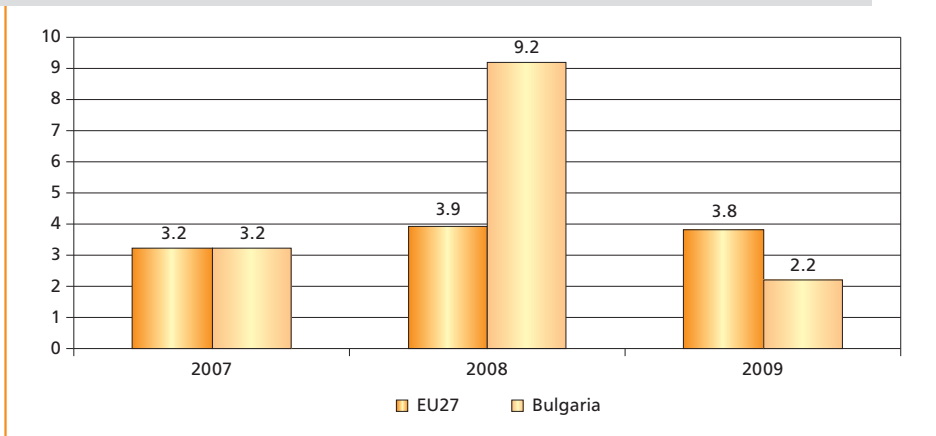
- Innovation policy and the financial instruments which make its implementation possible (the National Innovation Fund, the National Science Fund, the operational programs, venture and guarantee funds through the JEREMIE initiative, among others) should be tailored to the characteristics of innovation at the sector level and the specific

**Figure 2. EXPENDITURE PER R&D-ENGAGED STAFF, THOUSANDS OF BGN**





**Figure 3. GOVERNMENT BUDGET EXPENSES FOR R&D IN ENERGY, % OF ALL BUDGET EXPENSES FOR R&D**



favorable factors. Sector development policies should be based on in-depth knowledge of sectoral innovation systems, the capacity, needs and specific expertise of agents in the sector.

- Prioritizing high-tech services while disregarding traditional low-tech sectors leads to ignoring factors critical for economic growth and competitiveness of national and regional economies, as well as to missing opportunities for spreading know-how and new technologies created in the country on a broader basis. Encouraging innovation in the traditional sectors creates higher demand for innovation solutions generated by the rest of the economic activities related to them.

This intensifies the interaction in support of open innovations within the innovation system as a whole.

- The business environment is of key importance for the development of the innovation potential of traditional industries which are a smaller source of new knowledge and which absorb the latter more. Basic (transport and communications) and advanced infrastructure (universities and research units) act as a medium for disseminating existing and new technologies, in conjunction with other factors such as patent law, protection of competition, tax relief and established business practices.

### *National innovation policy*

Bulgaria entered the second decade of the 21st century at one of the lowest levels of its innovation potential and competitiveness in Europe. In 2011, there

are conditions which, provided they are used efficiently, can transform the weaknesses into opportunity. Europe is developing its new 2020 strategy and requires

member states to adopt at national level ideas, priorities and instruments to achieve the objective of a competitive, sustainable, green and social European economy. The main principles which will guide the next 2014 - 2020 programming period in the management of Community funds are in the process of development.

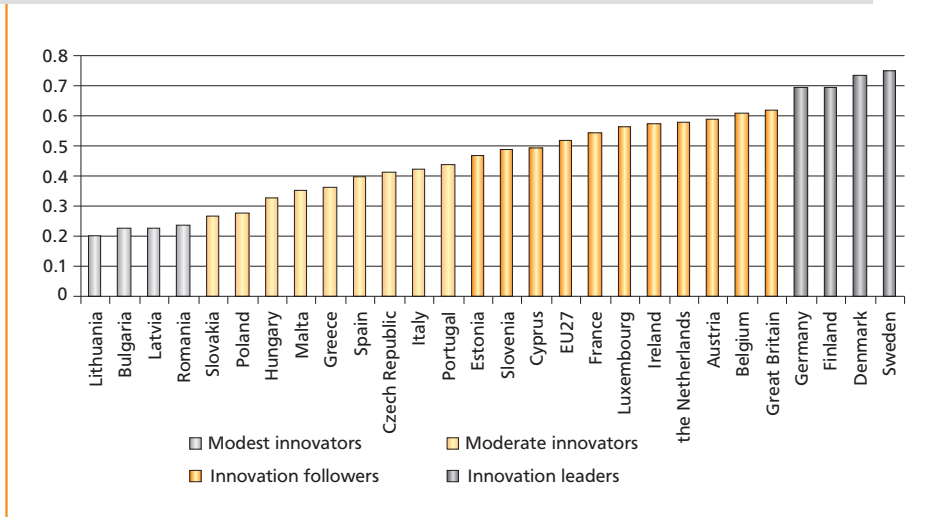
The missed opportunities and, above all, Bulgaria's low relative positions in the field of research and innovation compared to the rest of the EU member states, necessitate a well-reasoned and integrated policy for the development of science, technology, education and innovation. To implement such a policy it is equally important to have ensured funding, as well as political will, aimed at implementing the following measures:

- Establishment of an Integrated National Strategy for Innovation and Technological Development of the Bulgarian economy. The new innovation strat-

egy should reflect the scienceeducation-innovation interaction and should provide incentives for research units, universities and businesses to work together in the generation and transfer of new knowledge, technologies and innovations.

- Bulgarian representatives in the various EU institutions should participate more actively in the forging of European policy and in the making of decisions and recommendations. Numerous guidelines and decisions in the field of innovation have been published in the EU in recent years. Some of them restate ideas and recommendations from previous years without making any analysis, report or evaluation of their implementation and impact. There should be essential improvement in the programming of European funds for 2014 - 2020, with a stress on setting aside more means to fund R&D, technology and innovation. In this respect, the set of themes

**Figure 4. INNOVATION UNION 2010: THE INNOVATION PERFORMANCE OF EU MEMBER STATES**



should be restructured and new rules should be adopted for more effective procedures of application, reporting and control.

- Establishment of a strong and capable administrative body overseeing the application of Bulgaria's innovation development strategy which would reflect the political will for implementing the research and innovation policy.
- Increasing public and private funding of research and innovation by:
  - Providing instruments for national cofunding of projects approved for funding by EU programs. The state should support its best scientists, research units, business and NGOs that have succeeded in attracting external funding for the development of their research potential not only from FP7 but also from the other programs which have a direct impact on the innovation potential (e.g. CIP).
  - Coordinated public funding – through the National Innovation Fund, the National Science Fund, the operational programs, the venture capital funds – with the objective of prioritized channeling of

funds to the implementation of innovation projects.

- Utilization of public-private partnerships as a tool for the implementation of projects with a significant public outcome. The central government and the municipalities should apply new technological knowledge in public procurement as a main consideration instead of simply the lowest cost bid.

The national innovation system needs new models and mechanisms of management which would provide not only faster reform of its individual elements – scientific organizations, universities, intermediary units, innovative firms, administrative and financial institutions – but would also boost creative interaction and integration between them. The successful implementation of such measures requires a developed innovation culture. Awareness of the potential of innovations and understanding their significance at individual and community level takes time but gives results – a good reason to place it at the foundation of contemporary policy for the development of Bulgarian education and life-long learning.

### Seventh National Innovation Forum: Innovation and Competitiveness



*Mr. Ruslan Stefanov, Coordinator of Innovation.bg Group, Applied Research and Communications Fund*



*From left to right: Dr. Ognian Shentov, Chairman, Applied Research and Communications Fund; Mr. Boyko Borissov, Prime Minister of the Republic of Bulgaria and Mrs. Zinaida Zlatanova, Head of EC Representation in Bulgaria*

The Applied Research and Communications Fund, the Representation of the European Commission in Bulgaria and the Ministry of Economy, Energy and Tourism organized the Seventh National Innovation Forum entitled ‘Innovation and competitiveness’ on May 17, 2011 under the auspices of the Prime Minister of the Republic of Bulgaria, Mr. Boyko Borisov.

During the forum, the findings of the annual report on the innovation development in Bulgaria – Innovation.bg 2011, were presented and discussed. The winners in the national contest for “Innovative Enterprise of the Year” were awarded.

The National Innovation Forum is a unique annual event for Bulgaria, aimed at uniting the efforts and bringing together all stakeholders and interested parties to discuss the innovation environment in the country and to propose optimization measures.

The Prime Minister of the Republic of Bulgaria welcomed what Bulgaria has already achieved in stimulating innovations and explained that the Ministry of Economy, Energy and Tourism (MEET) has made an in-depth analysis of the Bulgarian economy, indicating the strengths, weaknesses and opportunities for development. He said that investments of EUR 200 million from the Operational Program “Competitiveness” shall be made and three technology parks shall be constructed, which will contribute to innovation-based economic growth in Bulgaria.

The Innovation.bg 2011 report presented at the forum, outlined: (a) why innovations are key factors for Bulgaria, (b) why the Bulgarian state suffers from innovation deficit despite the fact that it has one of the highest growth rates on the aggregate innovation index, (c) why patents indicate the potential for innovations not only now, but also in the future, (d)

the increase in the business contribution for research and development (R&D) expenditures in Bulgaria.

In summary, the forum participants indicated the steps necessary for the realization of Bulgaria's full innovation potential. These included the need to:

- Strengthen the knowledge base and further develop the European Research Area;
- Develop second-generation policies to

be directed towards economic growth through innovation and technological development;

- Have a well-functioning administration and commitment at highest policy level;
- Draft a law for innovation to regulate the policy for stimulating innovation;
- Provide government co-financing for EU funded projects of national importance (similar to FP7 cofinancing)

### Annual Innovation Award

The award in the “Innovative Enterprise of the Year” contest is given annually to Bulgarian enterprises which have successfully developed and/or introduced innovations or to Research and Technological Development (RTD) organizations for their research that has increased the efficiency of business performance and/or has led to a sustainable economic

impact. The innovation performance of companies is evaluated by an independent jury on the grounds of data provided by the companies, on-site visits and in-depth technology audits of the applicants. Applicants are evaluated against a special methodology by an expert panel and a jury in two categories. The first category includes innovative small com-



*The winners of the Innovative Bulgarian Enterprise of the Year awards 2011*

panies which have up to 50 employees, and the second includes innovative medium and large companies which have over 50 employees.

Prime Minister Boyko Borissov awarded the winners in the “Innovative Enterprise of the Year” 2011 national contest. In the Small Innovative Enterprise category first prize went to PRIMAVET Sofia Ltd. and

three other companies were recognized by award diplomas: Advanced Technology Corp., APEX 11 Ltd. and Interiorprotekt Ltd. In the Medium and Large Innovative Enterprise category the first prize award was given to OPTIX Co, followed by DATEX Ltd. and AMK Drive and Control Engineering. Special award was given to ORAK Engineering for sustainable and innovative business practices.

### *Draft Law on Innovation*

In 2011, ARC Fund continued its good collaboration with the Ministry of Economy, Energy and Tourism and developed the first Draft Law on Innovation in Bulgaria.

The Draft Law on Innovation foresees the following main groups of measures for financial and nonfinancial support of innovation in the enterprises:

- The creation of a Bulgarian Council on Innovation as an advisory body to the Minister of Economy, Energy and

Tourism;

- The setting up of a state enterprise Bulgarian Innovation Fund with a mission to support innovation in Bulgarian enterprises through grant and other types of financial and non-financial instruments;
- The introduction of tax breaks for innovative companies and start-ups;
- The definition of the main terms in the country’s innovation policy and the key stakeholders in the national innovation system.

### *EVAL-INNO*

The “Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region” (EVAL-INNO) project began in May 2011. The overall objective of the project is to improve national and regional RTDI evaluation capacity in South East Europe in order to ameliorate the efficacy of RTDI activities and maximize their benefits for economies and societies. The project consists of six partners from six countries (Austria, Bulgaria, Greece, Hungary, Montenegro and Serbia) in South East Europe all of which have a high level of public policy

expertise with access to national policy-makers and policy-delivery systems. Additionally, through a network of six country correspondents, the project will cover the entire South East European area, both in assessing as well as improving RTDI evaluation practices and the public procurement of evaluation expertise. The EVAL-INNO project is funded under the **South East Europe Transnational Cooperation Program** and co-funded by the project partners from own funds or from national public funds. The project runs for three years and concludes in April 2014.



*EVAL-INNO Steering Board Meeting, October 13th-14th, 2011, Sofia, Bulgaria*

In order to improve the framework within which RTDI policies, programs, institutions and projects take place, project activities include:

- Mapping RTDI strategic documents, RTDI programs and funding instruments, innovation infrastructures, RTDI stakeholders and actors as well as potential and current RTDI evaluators;
- The aggregation and codification of RTDI evaluation standards based on the best practices from across Europe and from around the world;
- The aggregation and codification of the best practices in the public procurement of RTDI evaluation expertise from across Europe and from around the world;
- Organizing training sessions based on the research findings for current and potential evaluators. These training sessions will be organized around both RTDI evaluation methodologies and standards as well as for those authorities involved in public procurement in South East Europe;
- Guidelines for the evaluation of RTDI programs and a methodology for benchmarking intermediary or R&D based innovation organizations/centers;
- 3 RTDI program evaluations and one regional benchmarking exercise comprising at least 6 innovation intermediaries;
- The development and maintenance of a permanent RTDI evaluation platform containing four databases including an institutional evaluators' database, a project evaluators' database, an information on evaluation standards database, and a database of RTDI studies);
- External communication and dissemination activities to ensure a high impact of project results and improvement of the efficacy of RTDI activities in SEE, including through a large international conference and other events.

ARC Fund is leading both the mapping activities as well as the development of the four databases within the project.

At the end of 2011, ARC Fund has already made significant progress in developing the structure and functionality of the databases as well as mobilizing

the partners and country correspondents in providing the content to populate it. These activities will be completed in the first half of 2012.

### *ERAWATCH Country Report 2011: Bulgaria*

In 2011, ARC Fund elaborated the annual ERAWATCH Country Report 2011 for Bulgaria. The report reviews the performance of the national innovation system. It identifies the national policy challenges using the Innovation Union self-assessment tool. It also specifically highlights the structural challenges which, if left unaddressed, constitute bottlenecks for the improvement of the country's economic, research and innovation performance. The report underlines the impacts of the global economic crisis and its effects on subsidies for R&D. The report also notes the governmental actions to update the regulatory framework, set new rules, pro-

cedures and priorities, as well as create coherence and synergies between the numerous existing strategic documents.

For the first time, the National Strategy of Scientific Research up to 2020 (adopted in 2011) set priority areas for the development of research in Bulgaria, taking into account the national economic interests and objectives. It also notes that many necessary strategic documents and measures are still under preparation and extensive effort from all stakeholders is needed to implement the newly foreseen measures of the National Strategy of Scientific Research to 2020.

### *ERA-LAW*

In 2011 ARC Fund implemented a study in support of the ERA Framework Impact Assessment. ARC Fund prepared an inventory of the Bulgarian legislation, thus presenting an overview on the way research and research systems are regulated. The output of the study for all Member States will constitute an important element of the baseline information which the European Commission will draw on in putting together the ex ante Impact assessment for the ERA Framework. The inventory includes legislative and non-legislative measures and documents, both existing and

under development (e.g. laws, administrative procedures, rules, strategies, programs, etc.). The inventory regards the documents that set the rules for the individual researchers, the research performing organizations and the research funding.

The overview analysis in the inventory specifically comments on the relevance of each document or program to the dimensions of ERA. It also lists any specific aspects of the rules in question that may promote improvements in line with the relevant ERA objectives.



*ERAWATCH: Baseload research inventory service*

For a fifth consecutive year, ARC Fund provided information about the Bulgarian national and regional research systems to the European Commission's research inventory service ERAWATCH. ARC Fund's work focused on the main mechanisms for research policy-making in Bulgaria, the most important political documents, the research dynamics of EU membership, the regional dimension of research activities and the activities

of the main institutions involved in research.

In 2011, ARC Fund analyzed the new developments in the research policy, including the adoption of the National Strategy for Research Development 2020, the setting of national R&D goal in the framework of Europe 2020 strategy, and the adoption of a National Roadmap for Research Infrastructures.

*Trend-Chart on Innovation*

As a member of the ERAWATCH network in 2011 ARC Fund developed the Country Report for Bulgaria on the European TrendChart on Innovation. This was the piloting of the integration of research and innovation intelligence gathering at European level. The European TrendChart on innovation is the longest running policy benchmarking tool at European level. Since its launch in 1999 it has produced annual reports on national innovation policy and governance, created a comprehensive database of national innovation policy measures. The databases of INNO Policy TrendChart and ERAWATCH have been merged and a joint inventory of research and innovation policy measures has been created by the European Commission with the aim of facilitating access

to research and innovation policies information within Europe and beyond.

The 2011 Bulgaria TrendChart on Innovation Report noted that the current level of innovation and competitiveness in Bulgaria was at a low point. Nevertheless, there were plenty of opportunities for development in that area, as indicated by the national response to the Europe 2020 strategy on smart, sustainable and inclusive growth. The report further acknowledged that the innovation policy in Bulgaria was in its infancy, and the innovation structure of the country was not well developed. As of 2011 Bulgaria did not have any demandside innovation policy, which was the thematic focus of the latest TrendChart report.

*Regional Innovation Monitor*

The Regional Innovation Monitor (RIM) is an initiative of the European Commission's Directorate General for Enter-

prise and Industry, with the mission to describe and analyze innovation policy trends across EU regions. RIM analy-

sis is based on methodologies developed in the context of the INNO-Policy Trendchart, which covers innovation policies at national level as part of the PRO

INNO-Europe initiative. The overarching objective of the initiative is to enhance the competitiveness of European regions by increasing the effectiveness of their

The ERAWATCH Country Report 2011 identified the main structural challenges that Bulgaria is currently facing, which include:

- Ensuring stability of public policy and consistency between multi-annual utilized adequately for updating the institutional structure and the public scientific system;
- Institutional fragmentation, as at the present time separate research and innovation measures are implemented by various ministries, agencies and other entities. National measures and Cohesion Policy instruments are not strategy documents. The chaotic nature of the changes in public policy creates inconsistency in the funding of individual scientific fields, as well as the weak institutionalization of policy measures. Despite recent changes (2010-2011), as well as foreseen changes in legislation and the adoption of strategic documents, all stakeholders need to focus their efforts on the effective practical implementation of the suggested support measures;
- Increasing public funding and enhancing budgetary prioritization. There is a lack of adequate financial resources and effective public resource management directed towards the national research targets. The share of competitive funding in public budgets for scientific research is disproportionately small. There are also limited financial instruments for entrepreneurs such as start-up funding schemes, guarantee and venture capital funds. The participation of the private sector in R&D expenditures is very low, as is the absorption capacity of EU funds, including OP “Competitiveness” and OP “Development of Human Resources”.
- Setting an efficient evaluation and monitoring system of innovation and science policy implementation, including in individual organizations. Despite the measures envisaged in various strategic documents, a regular and comprehensive evaluation system has not been established;
- Increasing the attractiveness of research careers. The current levels of research personnel salaries, and the outdated material base and equipment do not attract young researchers, resulting in a brain-drain and an aging R&D staff;
- Ensuring the link between education, research and the business. There is lack of incentives for firms to collaborate with public research institutions, combined with prohibitive costs and minimal benefits from producing knowledge-intensive products for an unsophisticated consumer base. The National Science Fund supports measures to promote research activities among students, but they are insufficient in terms of scope and financing to achieve qualitative change.

innovation policies and strategies. The specific objective of the RIM is to enhance the scope and quality of policy assessment by providing policy-makers and other innovation stakeholders with the analytical framework and tools for evaluating the strengths and weaknesses of regional policies and regional innovation systems.

In 2011, ARC Fund updated the profiles of the six Bulgarian planning regions within the Regional Innovation Monitor platform. It focused the analysis on regional economic development, research, technological development and innovation potential. ARC Fund described the major support measures and projects, the most relevant policy documents, research-implementing organizations and local stakeholders. The analysis underlines that from a historical point of view, Bulgaria has been a highly centralized economy and it has not yet developed a regional dimension to its research and innovation policy. The country has only recently begun to consider the regional dimension in its innovation policy. The local authorities (municipalities) are strongly dependent on the national budget for the financing of innovations and have few resources of their own (for example from local taxes) to invest in this area. This is one of the factors that hinder the implementation of the Regional Innovation Strategies. The alternative source of financing of innovation is through the EU funds, which in some cases have larger importance than national sources. Bulgarian municipalities have various levels of activity in applying for EU funds. The main sources of EU financing are Seventh Framework Program, the Interreg IVC programme, and the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013". Since January 15th, 2009, Bulgarian municipalities can

also apply for credits from the **Fund for Local Authorities and Governments (FLAG)**. The fund was created by the Council of Ministers to tackle the problem with the provision of financial resources for municipalities for developing project proposals and the co-funding of EU projects.

ARC Fund also elaborated a report on Bulgaria's most advanced region – the Southwest region (Yugozapaden). The authors of the report note that Yugoza-paden is the biggest and best performing region in Bulgaria in terms of GDP and innovation. R&D expenditures in the region have been on the rise in absolute terms in recent years but have stagnated as a share of GDP, in line with the overall situation in the country. The region hosts almost half of all Bulgarian universities, as well as the two biggest public R&D performers – the Bulgarian Academy of Sciences and the Agricultural Academy. However, the Yugozapaden region is characterized by high intra-regional economic disparities, with Sofia, the capital city, being disproportionately better developed than the rest of the region.

The region also lags behind the average innovation performance of EU27 regions. The lack of any administrative support, as well as policy implementation capacity for innovation at regional level in Bulgaria has prevented the realization of the Regional Innovation Strategy. Instead, most of the innovation projects implemented in the region in recent years have been supported through the European Cohesion and Structural Funds. The region has attracted almost half of the EU funds which are dedicated to competitiveness, innovation and technological development in the country. Thus it has been able to offset some of the negative effects of the global economic crisis in 2009-2011.



*In 2011 the ERAWATCH platform was transferred to its new website [www.erawatch.jrc.ec.europa.eu](http://www.erawatch.jrc.ec.europa.eu)*

## METRIS

In 2011, ARC Fund joined the Metris-Network, an intelligence group for gathering insights and for benchmarking the development of social science and humanities in Europe. METRIS is an initiative of the Directorate-General for Research (DG RTD) which aims to become an entry and reference point for the social sciences and humanities landscapes in Europe. It is overseen by the ERA Directorate of DG RTD of the European Commission.

METRIS pursues the collection, regular updating, and analysis of information on social sciences and humanities at national and European level.

The 2011 report on the Social Sciences and Humanities (SSH) in Bulgaria marks a new beginning in the independent review of Bulgarian research performance, based on comparable European data. The report outlined that SSH is one of the areas in

which the gap between Bulgaria and the EU is the widest. This is particularly worrying as SSH forms the basis for applied policy advice, which means that Bulgarian policies might lack a well-prepared background. Most SSH research in Bulgaria is carried out in state funded institutions. While there is no restriction on researcher

mobility between the public and private sector, it is a rare occurrence. Mobility exists primarily towards foreign research institutions. Within the private sector, non-governmental organizations carry out the majority of SSH research, although precise figures regarding the main performers are not available.

## Technology Transfer and Business Support

*The Enterprise Europe Network helps Small and Medium-Sized Enterprises profit from the single market*

After 1,000 days in business, the Enterprise Europe Network has helped more than 2.5 million companies to make the most of the European Union's Single Market. It has also attracted around 35,000 small businesses to international brokerage events and company missions. Europe's largest business support network contributes to the competitiveness of SMEs by making it easier for them to internationalize, innovate and access EU finance and funding. Close to 600 major players in the business support community have linked up with the network to offer a one-stop service to help companies reach their full potential.

With over 3,000 professionals participating, the EEN is present in every region of the European Union and in twenty-one third country markets to serve the needs of European SMEs. It provides integrated support services designed to help small enterprises do business abroad and find European funding for their research and innovation projects. The Network was created in 2008 by DG Enterprise and Industry and is a key part of the EU's Competitiveness and Innovation Framework Program, which aims to encourage competitiveness in European businesses. It is managed by the Executive Agency for Competitiveness and Innovation (EACI).



*The Network in Bulgaria consists of 14 partnering organizations in 8 cities; it is coordinated by ARC Fund, and covers the whole territory of the country.*

Enterprise Europe Network – Bulgaria, being part of the network, helps small businesses internationalize, innovate and use better the opportunities of the Single Market.

As in the previous years, the focus was to help the internationalization of Bulgarian SMEs via business partnerships, to encourage and support innovation via technology transfer and modern innovation support services, and to facilitate access for SMEs to research programs and funding.

ARC Fund maintains the internet portal of the Network in Bulgaria, which is the leading Bulgarian portal for business in-

formation and advice, technology transfer and innovation, consultancy and information.

It also contains information on how to participate in national and European funding programs, especially those related to technological development, research and marketing of new products and technologies. Each partner maintains its own regional portal of the network.

The activities of EEN – Bulgaria during 2011 are focused on sectors such as ICT, being the sector that could serve as the basis for the faster development of the entire economy, as well as traditional sectors such as the food industry.

The screenshot shows the website interface with the following elements:

- Header:** Logo of Enterprise Europe Network, navigation tabs (Начало, Новини, Статии, Контакти), and a language selector (English Version).
- Left Sidebar:** A vertical menu with categories like 'Начало', 'За нас', 'Намерете партньори', 'Услуги на ирехтата', 'Актуални конкурси', 'Събития', 'Публикации', 'Видео галерия', 'FAQ', 'Полезни връзки', and 'Календар'.
- Main Content Area:**
  - Във фокус:** Section titled 'Иновации и конкурентоспособност' with a text snippet about the 'Europe 2020' strategy.
  - Международни брокерски дни:** Announcement for Mobile World Congress 2012 in Barcelona.
  - Успешни проекти:** Section for 'TOUREG-подпомагане на иновативните услуги за фирмите от туристическия бранш'.
  - Избрано за вас:** Section for 'Интерактивна онлайн конференция за работещите в ...'.
- Right Sidebar:** A video player showing a person in a blue suit, and a banner for 'Услуги за управлението на водите и интегрирани решения за хранително-вкусовата индустрия'.
- Calendar:** A calendar for February 2012 showing dates from 1 to 29.

The website of the Enterprise Europe Network, found at [www.enterprise-europe-network.bg](http://www.enterprise-europe-network.bg).

### Brokerage Events

The Applied Research and Communications Fund has organized business and technological brokerage and matchmaking events annually in various economic sectors such as engineering, machine building, ICT, energy efficiency and renewable energy sources, and the food industry. These types of pre-arranged meetings allow for contact between

businesses and research organizations in search of business, technology and project partnerships. Such partnerships can include international projects at the European level, which can take place under different EU programs and initiative, such as the EU framework programs and operational programs under the EU structural funds.

### FutureMatch

The Enterprise Europe Network Bulgaria organized an ICT technology brokerage event during the biggest European exhibition in the field named CeBIT, from March 1st-5th, 2011, in Hannover, Germany.

The event attracted 263 participants, presented 533 cooperation profiles from 35 countries and scheduled 1,323 meetings. The ARC Fund consultants from the network supported the participation of six innovative Bulgarian companies in the bro-



*A glimpse into the FutureMatch event.*



kerage event. They presented several new technological solutions, which included a platform for the achievement of agile business organization, enterprise resource

planning solutions, and accounting and warehouse management software. The presented technologies provoked very high interest and more 90 meetings were held.

### CeBIT Bilişim



CeBIT Bilişim

CeBIT Bilişim Eurasia is the largest and most important ICT trade show in the Eurasian region and covers the entire spectrum of information technology, telecommunications, software and ICT-related services. To overcome the current crisis, In November, the European Commission proposed a new strategy entitled “Small Business, Big World - a new partnership to help SMEs seize global opportunities”.

It states the European small and medium sized enterprises should better profit from fast growing emerging markets outside of Europe. The CeBIT Bilişim Eurasia brokerage event, organized by the Enterprise Europe Network from October 6th-9th 2011, provided very good opportunities to the participating 19 Bulgarian companies to promote their innovative technologies to the Eurasian ICT-world.

### *ANUGA Matchmaking 2011*

The brokerage event “ANUGA Matchmaking 2011” was organized in parallel to the international food exhibition ANUGA on October 10th-11th, 2011 in Cologne, Germany. ANUGA is not only the largest food and beverage fair in the world, it is also the sector’s most

important fair for new markets and target groups. Furthermore, 64 Enterprise Europe Network partners supported the brokerage event as co-organizers. EEN Bulgaria assisted 35 Bulgarian companies in registering and attending the event.

### *STAR-NET TRANSPORT*

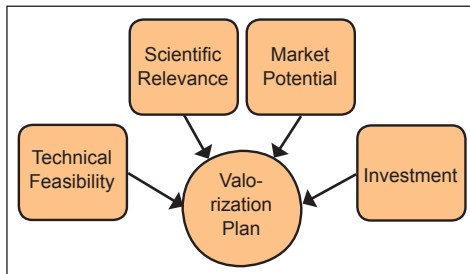
The aim of the Star-Net Transport project, implemented within the EC Seventh Framework Program and finalized in 2011, was to provide integrated support for the innovative development and successful participation of European SMEs in ‘Sustainable Surface Transport’ activities (haulage, logistics, ICT applications, naval technology, car building, railway transport, and the economics of transport). The project network of 16 organizations from the EU and Turkey provided sets of services on promoting call opportunities, assessing the technological state of the potential SME applicants, identifying promising project ideas, developing and disseminating partner search profiles and assisting the inclusion of Transport SMEs in project proposals under the Seventh Frame-

work Program. For the project duration, the consortium assisted more than 400 SMEs and supported the submission of 30 proposals to European programs related to transport, innovation and energy efficiency.

ARC Fund assisted 30 transport SMEs, associations and clusters with information, consultation and partner search services, facilitated the inclusion of 5 Bulgarian SMEs in project proposals to EC programs and organized two awareness raising workshops on financial and partnership opportunities for innovative development. It also nominated 10 technology and partner search profiles, disseminated through the Star-Net Transport network, to potential contractors.

## InterValue

InterValue aimed to establish knowledge, support and inter-regional cooperation mechanisms aiming at the integration of the R&D potential in the South East Europe area. The objective of the project is to help exploit academic research for the sake of R&D sustainability and regional development.



*InterValue Methodology Diagram*

The methodology adopted by the project includes the following steps:

1. Identification of R&D results created by research centers in the region that have some market potential. ARC Fund identified 50 R&D results which are presented in the project platform;
2. Creation of a transnational pool of experts that can offer their advice on the market potential, technical feasibility, scientific relevance and funding opportunities;
3. Assessment by the experts of the market potential of selected R&D results.

The Bulgarian network of experts helped researchers (the most promising 25 of the 50 collected R&D results) to create valorization plans by exploring the technical feasibility, scientific relevance, market potential and investing/funding potential of the R&D results.

4. Development of exploitation plans and valorization agreements for the most promising of the assessed R&D results and support of their valorization potential. The project implementation now is at the stage of selection for those R&D results to be supported on their way to the market;
5. Systematically promote linkages between research and business through focused brokerage events.

Two brokerage events were organized in Bulgaria (on July, 2nd-3rd, 2011 in Gabrovo and on September 26th-27th, 2011 in Plovdiv) aiming to promote the collected R&D results to industry and financial organizations.

These steps are complemented by a multilingual web 2.0 based knowledge site, with complete methodological guides that clarify specific aspects of new product development and intellectual property management.

The web platform is available at [www.researchvalue.net](http://www.researchvalue.net).

## EU Policies for SMEs

In 2011, ARC Fund finalized the project EU Policies for SMEs which had the main objective of facilitating consultations between the European Commission

and SMEs in the EU and EU-accession countries. This was done in order to include their opinions in the EU level policy making process, thus enabling the direct

involvement of SMEs. The project activities included:

- Enhancing the communication channel between SMEs, Enterprise Europe Network partners and the Commission;
- Provide feedback to SMEs on the outcome of the exercise.

To achieve the main objective the project, partners managed to gather and analyse the opinions of more than 150 Bulgarian SMEs on forthcoming policies and

legislation related to SME relevant priority areas in the Commission's Legislative Work Programme (CLWP). The consulted panels included:

1. SME Panel specific action, which is a new legislative framework for the marketing of products where there was a proposal to align 10 product harmonization directives to Decision 768/2008
2. Alternative Dispute Resolution (ADR)
3. E-signature and electronic identification

### *Improving SME Competitiveness and Innovation in Serbia*

As a further attempt to enhance its internationalization ARC Fund embarked on a mission to perform Innovation Scanning in Enterprises: Analysis and Policy Development. This mission is carried out for a consortium of organizations, which implement the EU supported project on improving the competitiveness and innovation of Serbian SMEs. In 2011 ARC Fund did primarily preparatory work, such as company visits in Serbia, as well as meetings with Serbian authorities such as the Ministry of Economy and Regional Development, National Agency

for Regional Development, Ministry of Education and Science, etc. ARC Fund also carried out a training workshop on international benchmarking methods, presenting the case of the Innovation.bg best practice. In 2012 ARC Fund will contribute to conducting a survey to scan 3000 enterprises, 50 in depth in Serbia. This survey aims to enable the Serbian Ministry of Economy and Regional Development to identify policy measures that might remove existing barriers that prevent SMEs from realizing their full innovation potential.

### *Support for enterprise and business incubators in Eastern Europe and Central Asia*

ARC Fund's IT Group leader, Mr. Todor Yalamov, manages the ECAbit Eastern European and Central Asian Business Incubators and Technology Parks Network as part of the global incubators network of infoDev. The network was founded in May 2005 in Kiev, Ukraine. In 2011, the network carried out numerous training events and provided high-value added services to its members. The highlights of ECAbit's work in 2011 included:

- The Sixth International Conference of the Eastern European and Central Asian Business Incubators and Technology Parks Network (ECAbit), from November 6th-8th, 2011 Chisinau, Moldova;
- The Tambov International Innovative Camp was held for the first time on August 24th-26th, 2011. More than 150 participants attended the camp, including representatives from Germa-

ny, Bulgaria, Belarus and Russia. The main activities of the camp were: (a) the conference “Small and medium-sized entrepreneurship, the revival of its best traditions and employment”; (b) a seminar training “Practice of small innovative business development”; (c) a master-class “Commercialization of ideas: the main problems and solutions”;

- The annual Y2I 2011 competition for

innovative start-ups who are nominated by members of the network from among their tenants;

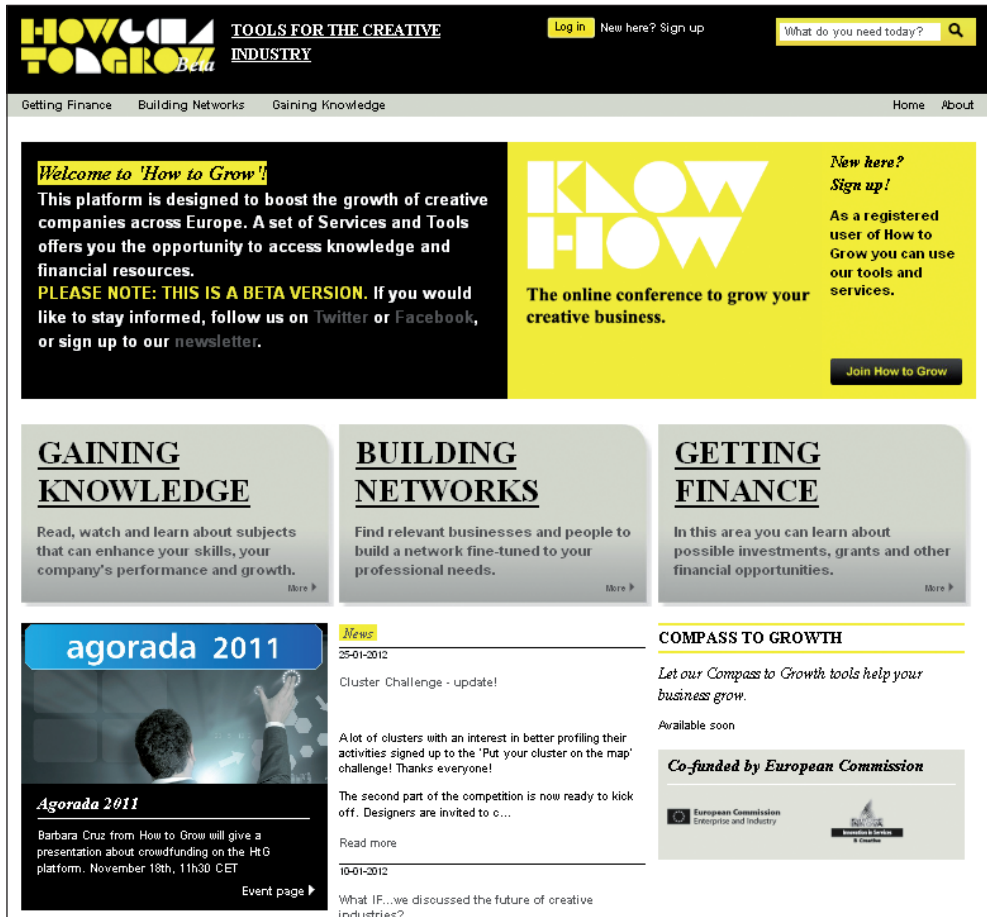
- ARC Fund’s continual provision of valuable information to its partners in the network by preparing and distributing the ECabit Newsletter in English and Russian. The newsletter contained useful insights from the activities of the network as well as external incubation resources.

## B-CREATIVE

The year of 2011 marked the launch of the **“How To Grow” online platform** of the “Business kit for Creative start-ups in IPR, Venture capital and Entrepreneurial skills” (BCreative) project. The platform aims to provide a number of services and information for startup companies and individuals working within the creative industries (CI) in order to help them thrive in this high-growth sector. Companies and individuals include those working in advertising, architecture, art and antiques, crafts, design, designer fashion, filmvideophotography, musicperforming arts, publishing, software and computer games, television and radio. In order to help overcome challenges to the achievement of goals for those in creative industries, the platform aims to enhance networking opportunities and the identification of business partners, obtain and exchange expert business advice and other useful information, as well as help facilitate access to the financial resources necessary to help those working in these fields turn their ideas into successful companies. The project consists of nine partners from six European countries which include design companies, technology transfer organizations, universities, chambers of commerce and public bodies. BCreative is

a European Commission funded project under the Europe INNOVA Initiative of the Competitiveness and Innovation Framework Program (CIP).

In order to address networking, informational and financial challenges, the online platform contains distinct areas designed to address them. The first includes a “Building Networks” section, containing a community platform and partner search where users can profile themselves and interact with other users as well as search for potential partners working in similar or complimentary creative areas. The second includes a “Gaining Knowledge” section of the platform consisting of a community forum, “Mediabase” and a “Watch and Interact” page. These sections allow for discussions of CI related topics, downloadable information including case studies, policy documents, business and financial information among others, and interactive streaming videos of CI related presentations from across Europe. Finally, the “Getting Finance” section includes an area where creative projects can be funded through an aggregation of small donations by interested users and also contains a listing of grants and funds available at local, national and European levels. In the coming year, it is foreseen



Homepage of the 'How To Grow' online platform of the B-Creative project

that a crowd investments tool will become available, allowing for small investments in CI related projects and businesses. Crowd investment tools will allow many “micro-investors” to contribute to an organisation’s overall funding target and gain equity in a project or company in the process.

The identification and development of these tools was based on an assessment of the existing needs and challenges of creative companies in the partner countries. Now that the platform has been launched, the ways that the tools and services are be-

ing used will be monitored in order to assess and improve their functionality. The creation and moderation of the tools is split among the project partners. For its part, ARC Fund is responsible for leading the moderation of the community forum to ensure a lively and productive discourse among users of the platform.

In 2011, BCreative also worked with other CI support projects, such as the IMMEDIATE project, through activities such the cross-linking of events. This integration is expected to deepen until the project conclusion at the end of 2012.

## Safer Internet for Children

In 2011, ARC Fund considerably expanded the scope of its activities aimed to encourage positive, responsible and safe use of the Internet and mobile technologies among children and young people. All three of the Safer Internet Centre (SIC) services are already available in Bulgaria – the Awareness node, the Internet Hotline for reporting illegal and harmful for children online content and conduct, and a national Helpline acting as a consultation call-center which responds to the questions and concerns of young people, parents and teachers linked to minors' experiences online, which went fully operational since April 2011. Due to the good cooperation between ARC Fund and the three Bulgarian mobile operators, the Helpline telephone number 124 123 has a very low charge of

0.07 per call notwithstanding its duration. The SIC activities during the year have been following the traditional priorities of the program – raising awareness among children, parents, teachers and professionals regarding the positive and safe use of Internet and mobile technologies by:

- Developing educational materials;
- Implementing information and awareness raising campaigns and trainings;
- Monitoring the emerging trends in technology use among young people;
- Supporting cooperation between various stakeholders.

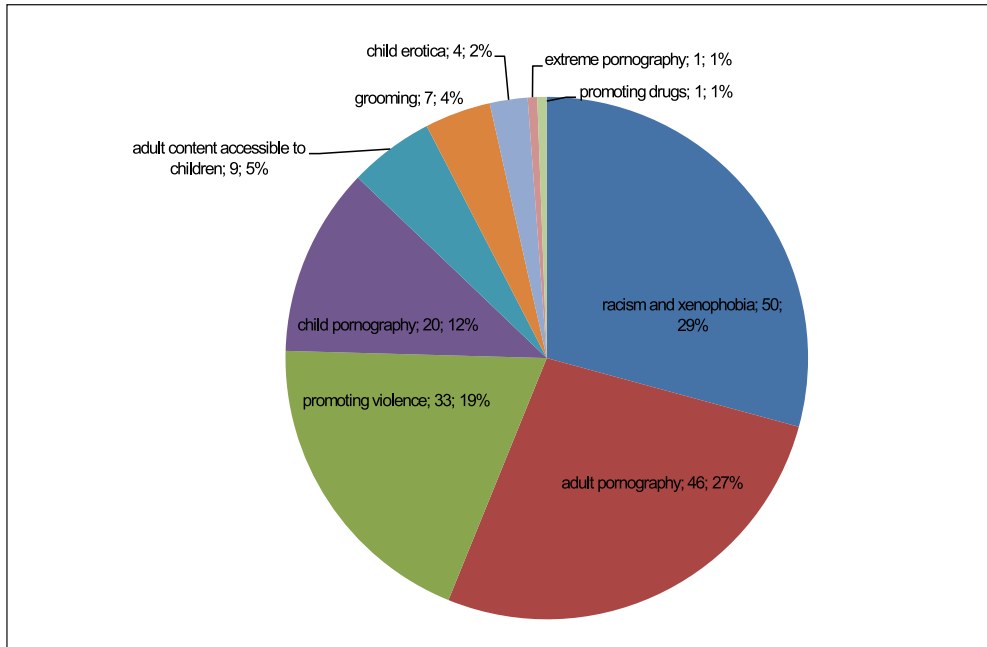
The newly launched Helpline showed a steady popularity rise due to the visibility

The Help Line's website.

of the SIC in Bulgaria, so more and more children, parents and teachers have been reaching out to the consultants for advice and support. In order to raise awareness among stakeholders, SIC organized and participated in a number of events throughout the year. SIC teams visited schools in three cities where open lessons on safer Internet use for students, teachers and principals took place. A special guest in Sofia and Varna was Yavor Kolev, head of Cybercrime Unit of the General Directorate for Countering Organized Crime at the Ministry of Interior who participated in the discussions by sharing real-life experiences.

Experts from SIC and Cybercrime Unit officers participated in a 3-day training of pupils from around the country, organized by the Centre for Inclusive Education within the framework of a joint project with Save the Children – Norway. Pupils learnt about methods of peer research

in order to conduct surveys among their classmates about their habits of Internet use. The results of the surveys were published in a special booklet entitled “Being safe in Internet”. In 2011, ARC Fund and the Parents Association continued training educators to implement the “Real and Virtual Violence Prevention by Interactive Education” methodology in schools. This year, an additional 18 teachers were trained to use the methodology in the schools in the city of Dimitrovgrad. Annual supervision was organized for 50 school counselors in the city of Varna who had already implemented the methodology in their schools. They were further introduced to the recently published second educator’s manual, aiming to deepen the education in emotional intelligence and social skills that are considered an important protective factor preventing children victimization. In the city of Ruse, 16 teachers and professionals from the Prevention Directorate



Number and share of reports to the Hotline, by type



at Ruse Municipality also passed the training in the “Real and Virtual Violence Prevention” methodology and started its implementation in schools.

At the initiative of and cooperation with the Varna Municipality, ARC Fund started developing an online distance learning course on safer Internet use for pupils. 70 students between 16 and 18 years of age volunteered to participate in the pilot phase of the project. The course has three levels and prepares the trainees to become peer educators on safer Internet use. Lessons at Level 1 introduce the basic Internet user skills such as web browsing, viruses, information search, and communication and security settings. Level 2 aims to enrich the understanding of these topics through more detailed information on types of malware and online scams as well as on the positive and safe use of social services that

exist online. Level 3 introduces the concept of peer support through research and education. All levels include presentations, demonstrations, and additional helpful materials to facilitate learning. Trainees who fulfill the requirements of all three levels will be awarded an Expert Safer Internet Certificate.

Nowadays, children start using Internet at a very young age. Therefore, one of the new priorities of SIC activities was designing and developing awareness and educational materials to meet the needs of the youngest users of the Internet. The activity book “Play and learn: Being online” released by the European Network of Safer Internet Centers (INSAFE) targets children from 4 to 9 years old was transformed in collaboration with Dechica.com into an online tool. The more than 20 activities included in the booklet are now freely available for kids



*Flashboy playing with kids*

to play on the website. Based on that, an interactive presentation was designed to be used by elementary school teachers in the classroom.

In order to promote the SIC Helpline, various awareness and visibility raising activities were organized. In May, for the third time in Bulgaria, a whole day openair event of family sports and healthy living – Famillathlon, was organized. Flashboy, a fictional character created as a symbol of the National Safer Internet Centre, was part of the celebration. He is always ready to help and knows everything about safer use of Internet and mobile communications. Flashboy introduced to more than 2,500 children and their parents the new initiative of the National Safer Internet Centre – the safer Internet Helpline. During the Famillatlon, children experimented with various sports and leisure activities and won plenty of awards including educational board games “Flashboy in the Land of Spammies”, magic folding cubes and memory cards game with the same SIC hero – Flashboy, aimed teach them basic online safety rules. The Helpline experts distributed booklets and brochures to parents and consulted them on issues that they are facing with their children’s Internet use habits. For the first time a Famillathlon event was organized in the city of Kozloduy. Besides on cardboard, the game “Flashboy in the Land of Spammies” was printed at a large-scale on vinyl, measuring 3 meters x 4 meters in size, so players can move as real pawns. The game proved to be a success as more than 200 children played in various events including “Sofia Breathes”, “Children’s Sofia”, and European Mobility Week. They learned more about safety on the Internet in a funny and engaging way, while their parents were given a brief consultation on the risks and opportunities online.

An Android application for smartphones was developed to help kids contact the helpline experts with ease. Besides the opportunity to look at the contents of the Helpline website and its Facebook page, the application provides easy one-touch access to the short number 124 123, and the possibility to compose and send reports by email. It is expected that going mobile would give an additional incentive to the teenagers and children to contact the helpline consultants. From October through November, SIC and the Network of Teachers Innovators organized a national competition for teachers who were asked to develop innovative lessons and methods for teaching online safety to their pupils. The teacher had to choose one or more of the eight basic digital skills and to explain it to students in a way that is appropriate and engaging for the children at that particular age. Pupils of the top 10 rated teachers were further tested online. The first prize was a laptop.

SIC developed 5 lectures as part of an online training course, which aimed to increase the digital competencies of teachers. This was organized by the Network of Teachers Innovators. The module “Online safety for pupils and teachers” covered the topics: prevention of online abuse of children; risks and opportunities for children online, prevention of real and virtual violence through personal growth, digital literacy and emerging technologies, and online safety: “good” and “bad” messages. The first lecture took place in December and was attended by more than 350 teachers.

The culmination of SIC activities throughout the year was the celebration of the Safer Internet Day on February 8th. In 2011, the focus was on “our virtual lives” around the slogan “It’s more than a game, it’s your life”. The main event took place at the “Elisaveta Bagriana” school in So-

fia, where three deputy-ministers attended including, Ms. Milena Damianova of the Ministry of Education, Youth and Science, Mr. Todor Chobanov of the Ministry of Culture and Mr. Parvan Rousinov from the Ministry of Transportation, Information technologies and Communications. Also in attendance was the Deputy-Chairman of the State Agency for Child Protection, Mr. Kalin Kamenov at the launch of the new Safer Internet campaign. Safer Internet Day was celebrated in more than 100 schools in 14 cities and towns around the country including Sofia, Varna, Kozlodui, Dimitrovgrad, Gotze Delchev, Vratza, Novi Pazar, Madan, Magarovo, Veliko Tarnovo, Kazanlak, Sliven, Rousse, and Biala. The Bulgarian SIC and Parents Association sent more than 3,000 “Flashboy” games, posters and badges to the participating schools to use in the events and initiatives they had planned.

ARC Fund also organized a number of safer Internet initiatives aimed at profes-

sionals. In August, the International conference “Say NO! to cyberbullying” took place in Sofia, co-organized by Madara-Bulgaria Foundation, the Department for Information and Qualification of teachers at Sofia University and the SIC team. School principals and teachers from 9 cities and towns and representatives and experts from Poland, the Czech Republic, Slovakia, Slovenia and Bulgaria presented their experience and methods for prevention in coping with cyber-bullying among minors – the most frequent threat that young people face online.

Continuing on from last year, experts of Safer Internet Centre (SIC) participated in the last training of police and magistrates as part of a project on capacity raising of law-enforcement, prosecution and courts in combating computer-related crimes, led by the International Academy for Cybercrime Investigation Training. In Velingrad, 12 judges, 16 prosecutors and 7 police officers from Plovdiv



*At the International Conference “Say NO! to cyberbullying”*

Appeal District were trained. Altogether the 5 trainings in all 5 judicial districts of the country involved more than 260 law enforcement officers and magistrates.

During the year ARC Fund experts participated in a number of international events and initiatives. The SIC team hosted a visit by 5 representatives of NGO organizations from Serbia and Bosnia and Herzegovina. The visiting experts were acquainted with the objectives of the Safer Internet Program of the EC, the activities of the INSAFE and INHOPE networks and of the expertise of the Bulgarian SIC. They were trained how to establish and maintain a hotline and awareness center, acquainted with various tools and methods for awareness raising and for training the target groups. Additionally, SIC took part in training sessions of 15 experts from Serbian NGOs in Novi Sad, invited by B92 Fund and Save the Children – Norway Sarajevo Office. In November SIC accepted 2 members of the Polish Safer Internet Centre, who came to Bulgaria on a bursary exchange visit. They were introduced with SIC activities in Bulgaria and the working procedures of the helpline and the hotline. Additionally, members of SIC took part in 4 INSAFE and IN-HOPE meetings and in the annual Safer Internet Forum in Luxembourg, where SIC presented its experience and initiatives about ensuring a safer online environment for minors in Bulgaria.

In July, ARC Fund organized, for the second year in a row, the participation of two representatives of the SIC Youth Panel in an international summer EU youth camp in Moeciu, Romania. The camp was organized by the Romanian Safer Internet Centre. The two youngsters completed training on different topics ranging from online safety to development of projects and peer training

and their team won second prize in a project contest. A pupil from the Youth panel represented Bulgaria at the European Youth Panel meeting in Luxembourg and presented a video of hers on “Online Reputation”. ARC Fund organized also her father’s participation in the European Parents Panel.

In order to monitor the trends in Internet use among children and teenagers, SIC initiated focus groups with pupils and teachers and an online survey for pupils, teachers and parents. The research agenda was to assess participants’ perception of youth aggression online. Participation in the focus group included 12 teachers and 24 children aged 12-18 years old. The opt-in online surveys on several popular websites were filled by 213 children, 33 parents’ and 1033 teachers. The surveys’ results demonstrated that most of the students don’t engage in intentionally harmful behavior online. Even when they act mean, in the majority of cases the assault is perceived benign by both the victim and the perpetrator. This phenomenon was named “Hate for Fun online culture” to convey the idea that Internet serves as an environment where children feel they may experiment “safely” with identities, norms and boundaries. The model was presented at the Fifth International Conference “Keeping Children and Young People Safe Online” on September 20th-21st, 2011 in Warsaw.

In 2011, the Bulgarian Safer Internet Hotline received over 620 reports of illegal and harmful content and conduct online. Of these, 12 of the reports were transferred to the appropriate authorities, 28 reports were transmitted to partner hotlines in other countries, and replies to 25 inquiries were provided. The Helpline team consulted over 320 clients since the launch of the service in April.

## Foresight Research

Since 2001, ARC Fund has been developing its institutional capacity in the field of foresight as a new tool in science and innovation policy development. Over the years, ARC Fund has contributed to more than a dozen

projects at EU level, applying foresight methods in fields like research infrastructure, food quality and safety, participation of citizens in identifying future research priorities, environment and new energy sources.

### SPRING

The Scoping China's Environmental Research Excellence and Major Infrastructure: Foresight, Potentials, and Roadmaps (SPRING) project aims to address the environmental implications of China's remarkable economic development and Europe's environmental challenges by the collaboration and knowledge sharing between European and Chinese researchers. Thus, SPRING will develop strate-

gies for attaining long-term viability of the Chinese and European economy and will ensure that environmental externalities of economic growth are minimized and/or reversed by shifting current production and consumption trends.

The main objective of SPRING is to create and provide a solid basis for future EU – China collaboration in the field of



*Participants in the key technologies workshop, Beijing 2-3 July 2011*

environment research. SPRING seeks to identify common needs and opportunities, analyze potential topics of research cooperation and initiatives, map competences and potentials of Chinese research and infrastructure, investigate strategic development plans and initiate roadmaps for future collaboration. SPRING also aims to analyze the hurdles, barriers and cornerstones that need to be addressed to enable better research engagement by EU researchers in China and vice versa. It will improve the visibility of research initiatives and strengths of Chinese regions to a wider audience in Europe.

ARC Fund is in charge of the forward-looking activities, whose goal is to develop strategic plans for strengthening the collaboration of EU-China environment research by using foresight and roadmapping. In order to set the groundwork for their proper execution, during 2011, ARC Fund made a thorough desk research and produced a short foresight manual, aggregated a summary of foresight studies from the EU and China and developed a paper that analyzes the megatrends, drivers and uncertainties influencing the Chinese, European and global environments.

ARC Fund also hosted a consortium meeting held in Sofia on April, 9th-10th 2011. During the meeting, project results were presented and upcoming activities were laid out and discussed. Participants gave their feedback on the megatrends, identified in the analysis and proposed additional ones. The revised version of

the analytical was finalised by ARC Fund in May 2011.

In the beginning of June ARC Fund developed the concept for the key technologies workshop in a special methodology paper. The workshop itself was held in Beijing on 2-3 July 2011. Ms Zoya Damianova and Ms Denitsa Marinova participated on behalf of ARC Fund. They guided the work of the moderators and executed control over the proper implementation of the workshop methodology so that optimal results were achieved. During the workshop, prominent environmental experts from China and Europe discussed the environmental dynamics in a global context and identified a total of 50 technologies with a strong potential to impact our lives in the following 15-20 years. These technologies fall within the six environmental domains under SPRING's scrutiny, namely climate change, water environment, atmospheric environment, biodiversity conservation, soil environment and natural disasters.

As a follow-up of the key technologies workshop, a key technologies questionnaire has been developed by ARC Fund and an online survey has been launched in December 2011. Activities in 2012 will continue with an analysis of the survey results as well as the preparation of another two workshops, including an EU – China success scenario workshop to identify joint priorities in environmental research and an EU – China roadmapping workshop which will aim to elaborate policy recommendations.

## PACITA

In March 2011, ARC Fund became involved in the highly innovative project

entitled Parliaments and Civil Society in Technology Assessment (PACITA), sup-

ported through the EU's 7th Framework Program, and is one of 15 partners from 13 European countries. Partner institutions include national and regional parliamentary offices for science and technology, science academies, research institutions, universities, and civil society organizations. The project will run until March 2015.

In committing to this project, ARC Fund's ambition is two-fold. First, we seek to introduce the concept of (parliamentary) technology assessment (TA or PTA), particularly with regard to enhancing the understanding of scientific and technological novelties among policy-makers and the general public; and second, to mobilize relevant stakeholders in recognizing

**PACITA** Parliaments and Civil Society in Technology Assessment

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**Parliaments and civil society in Technology Assessment: Broadening the knowledge base in policy making**

PACITA is a four-year EU financed project under FP7 aimed at increasing the capacity and enhancing the institutional foundation for knowledge-based policy-making on issues involving science, technology and innovation, mainly based upon the diversity of practices in Parliamentary Technology Assessment (PTA). Such practices involve a range of methods of cross-disciplinary expert studies, stakeholder involvement, citizen consultation and parliamentary discourse.

The key practices in focus are interactive in the sense that they engage science, civil society organizations, stakeholders, citizens, parliaments and/or governments directly in the activities in order to activate different kinds of knowledge, engage the actors, create common ownership to the results and enhance the communication between the societal actors.

PACITA has 15 European partners from national/regional parliamentary offices for science and technology, science academies, research institutions, universities and civil society organizations coordinated by a PTA institution, the Danish Board of Technology.

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**LINKS OF INTEREST**

- EPTA Network
- pEPTA Conference (07/09/2011)

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Homepage of the PACITA project at [www.pacitaproject.eu](http://www.pacitaproject.eu)

the role of knowledge in devising sound policies. This will serve to support the formation of a strong domestic (P)TA awareness and practice in the country. Around the world, but most recently in Western Europe, PTA has gained significant prominence at the intercept among science, public policy, and society. Though traditions and practices across the different countries reflect great diversity with regard to institutionalization, methodology and its broader societal role and impact, PTA's key message remains the same everywhere. It supports the processes of democratic policymaking on issues involving science, technology and innovation, by providing comprehensive insight into knowledge on opportunities and consequences, by facilitating democratic processes of debate and clarification, and by formulating policy options. We strongly believe PTA has the potential to significantly enhance democratic praxis in terms of elaborating better policies, designing more consistent legislation, and raising public awareness of scientific and technological advances. In addition, PTA practices are very likely to strengthen society's trust in both policy-making and in the results of scientific research.

Within PACITA, ARC Fund collaborates closely with colleagues from the Dutch Rathenau Institute and the Austrian Institute for Technology Assessment. In 2011, ARC Fund and its partners set up an am-

bitious agenda within the PACITA project. Staff members visited the Rathenau Institute and conducted joint interviews with leading Dutch technology assessment professionals, a science journalist, a microbiology professor, and a Member of the Dutch Parliament. They also prepared a thorough overview of the supporting domestic infrastructure, in terms of policy and research institutions, and identified the initial opportunities to commence a more targeted effort towards the introduction of PTA, and the attraction of key stakeholders' support.

ARC Fund is also the responsible partner in the development of a shared database to store PTA contacts across the EU, and to make them accessible to all project partners. This will serve the purpose of greater communication and dissemination of project information and accomplishments.

ARC Fund is especially proud to be a pioneer in championing the PTA concept and practice within the domestic policy discourse, and is currently the only Bulgarian organization to promote PTA. We build on our strong track record in supporting the development and implementation of innovation policies, in performing high-quality applied research, in networking with policy institutions and science centers, and in mainstreaming technological advances and solutions.

### *RIFI: Research Infrastructures – Foresight and Impact*

The RIFI project on “Research Infrastructures: Foresight and Impact” sought to advance impact studies by developing a comprehensive methodological framework for assessing socio-economic impacts of future Research Infrastructure (RI) projects on hosting regions and communities.

The Project Consortium was made up of 13 partners from 4 countries with a particular emphasis on Romanian and Bulgarian participation. This was reflected in the interest of the EC to build impact assessment capacity in countries that can benefit from the use of Regional Devel-



opment funds to create RIs.

Starting with a review of existing methods being used for socio-economic impact assessment of RIs, the project consortium developed a preliminary version of a holistic methodology with foresight elements being intertwined with impact assessment. This version has been tested and validated through six case studies of RI projects of different characteristics and pan-European, regional and national interest:

- Romanian ELI (Extreme Light Infrastructure) – Nuclear Physics (ESFRI project)
- EURO-ARGO (Global Ocean Observing System) (ESFRI project)

- Free Electron Laser FERMI@Elettra (under construction in Trieste, IT)
- Research Pavilion of the Colentina Clinic Hospital of Bucharest (RO national infrastructure)
- Institute of Renewable Energies of the Polytechnic University of Timisoara (RO national infrastructure)
- Molecular Medicine Centre of the Medical University of Sofia (BG national infrastructure).

Beyond the RIFI consortium, the Extreme Light Infrastructure Beamlines (ELI-Beamlines) project in the Czech Republic tested some parts of the draft RIAM (RI Impact Assessment Methodology) version and fed their experiences back for methodological

**FenRIAM**

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▼ Reporting

**Reporting**

The final report of FenRIAM needs to address the decision makers in the framework of the scoping document. From a support decision instrument perspective, the following principles are recommended when writing the final report:

- » *Provide a general introductory perspective of the impact lines.*  
While a lot of data is collected during the different steps of the procedure, its significance in the final assessment may be revealed gradually. Therefore the final report may start with a short narrative depicting the main aspects of the RI and the region that contribute to the estimated impact, the main assumptions on future events and the main indicators in relation with the foreseen causalities.
- » *Ensure easy interpretation of the indicators*  
FenRIAM modules involve a series of technical sections. All the aspects that enable calculations need to be identified, but before that a brief presentation of the indicators and their relevance in the specific context ensure a proper reading of the report.
- » *Acknowledge the constraints* in the application of the methodology, related to the data availability, stakeholders and experts involvement, changes in methods used etc.

FenRIAM on-line platform at [www.fenriam.eu](http://www.fenriam.eu).

improvement. The observatory at Roque de los Muchachos in La Palma (Canary Islands, Spain) delivered insights into how to assess certain aspects of public opinion about an existing RI.

The final product of the project, the FenRIAM framework (Foresight enriched RI Impact Assessment Methodology) integrated the feedback from the case studies and was presented at the RIFI project concluding conference in Bucharest (30-31 May 2011).

FenRIAM features foresight and impact assessment modules which are interwoven through an “inputoutcome” interface. Success and baseline explorative scenarios developed by foresight feed the Impact Assessment Module for eliciting

socio-economic impacts in four domains: science & technology, ecological environment, jobs (work & population) and quality of life. Assessment of the associated risks is also structured in a module. The outcomes of the impact and risk assessments are used as inputs for developing alternative scenario hypotheses in the second stage of application of foresight methods.

Currently, FenRIAM is made available to stakeholders and interested parties by two complementary products: (1) an extensive leaflet, containing detailed information of FenRIAM, its background and its main functions, and (2) an interactive website ([www.fenriam.eu](http://www.fenriam.eu)), which offers access to several case studies on which FenRIAM is based.



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**PART TWO**  
**Administration and Management**



The Applied Research and Communications Fund is registered in the Central Register of the Ministry of Justice as a non-governmental organization to the public benefit. Legal not-for-profit persons to the public benefit are subject to stricter control on behalf of the government and have additional obligations to submit annual reports on their activity before the Central Register by May 31 every year. They are also subject to independent audit under the procedure of the Accountancy Act.

In 2006, ARC Fund registered ARC Consulting – a consulting arm, which aims to better leverage the organization’s expertise on the market. The company provides consultancy services in the field of innovation and ICT in the European Union, as well as in the preparation and implementation of national and international projects under the EU Framework Programs, and the Cohesion and Structural funds.

ARC Fund and ARC Consulting form the ARC Fund Group.

## Institutional Development

In 2011, the staff of ARC Fund Group consisted of 33 people. Twenty six of them hold expert or management positions, including part-time consultants, and seven of them form the administration of the organizations. The personnel of ARC Fund Group is a mixture of young, well-educated and highly motivated people and experienced experts with an excellent reputation who are renowned for their professionalism and the high quality of their work in their respective field of activity.

ARC Fund Group is managed in accordance to the principles of good governance, accountability and transparency. The application of these principles is expressed in the:

- Execution of an annual audit.
- Individual project audits.
- Publication of annual reports in Bulgarian and English, which are publicly available on the webpage [www.arcfund.net](http://www.arcfund.net);
- Regularly uploading of information

regarding projects and organized events on the website of ARC Fund in order to inform the broad public about its activity;

- Collaboration with the media to promote implemented projects and achieved results.

The guiding principle behind the above activities is the provision of complete transparency of the operations of the organization.

In organizational terms, ARC Fund is divided into several programs, which reflect the main fields in its activity. Concrete projects are implemented within the framework of each program. Since its inception in 1991, ARC Fund has implemented over 170 projects with the support of various programs of the European Commission, the World Bank, USAID, UNDP and others.

ARC Fund’s project orientation allowed the team to develop internal capacity and procedures for project management,

abiding by the principle of good governance and transparency. In 2011 ARC Fund (including ARC consulting) worked on the implementation of 26 projects, funded by national and international donors. A consortium agreement, defining the rights, obligations and responsibilities of the sides, both in respect to the funding institution, the coordinator and the other partners, is signed among the part-

ners within each project. Every project is managed as a separate cost center, with specified breakdown of costs according to the requirements of the relevant funding institution. A project officer/project coordinator, usually a person who was personally involved in the development of a certain proposal, is appointed to every project in order to coordinate it and to serve as a contact point.

## List of Staff

### *Board of Trustees*

Dr. Ognian Shentov, Chairman of the Board  
Vladimir Yordanov, Deputy Chairman of the Board  
Inko Razpopov, Member of the Board  
Lyubomir Christov, Member of the Board

### *Staff Directory*

Nickolay Badinski, Executive Director  
Zoya Damianova, Program Director  
Angel Milev, Program Director  
Daniela Tchonkova, Program Coordinator  
Georgi Apostolov, Program Coordinator  
Todor Yalamov, Coordinator, IT group  
Ruslan Stefanov, Coordinator, Innovation.bg group  
Teodora Marinova, Senior Fellow  
Todor Galev, Senior Fellow  
Denitsa Marinova, Project Coordinator  
Teodora Georgieva, Project Coordinator  
Maria Alexandrova, Project Coordinator  
Lubomir Sirkov, Project Officer  
Robert Hickey, Project Officer  
Adriana Dimova, Project Officer  
Ventseslav Kozarev, Project Officer  
Luiza Shahbazyan, Project Officer  
Elena Velkova, Project Officer  
Emilia Domoustchieva, Project Officer  
Stanislav Kushlev, Project Assistant  
Alexander Gergov, Project Assistant  
Prof. Marin Petrov, Senior Consultant  
Prof. Milanka Slavova, Senior Consultant

### *Accounting*

Tzvetoslava Kioseva, Financial Officer  
Bilyana Dramliyska, Financial Officer  
Daniela Zayn, Accountant

### *Technical Assistants*

Ognian Apostolov  
Vassil Ignatov  
Miroslava Stoyanova





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**PART THREE**  
**Financial Report**





**Applied Research and Communications Fund (The Group)**

**Consolidated Annual Financial Statements**

**31 December 2011**

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## **Independent Auditor's Report**

To the Board of Trustees of ARC Fund

Sofia, 2 July 2012

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Applied Research and Communications Fund and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and 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



Applied Research and Communications Fund (The Group)  
Consolidated Statement of Financial Position, 31 December 2011

(all amounts in BGN thousand)	Note	31 December 2011	31 December 2010
<b>Assets</b>			
Property, plant and equipment	5	58	86
Investment property	6	244	256
<b>Total non-current assets</b>		<b>302</b>	<b>342</b>
Trade and other receivables	7	395	329
Cash and cash equivalents	8	1,673	1,407
Deferred expenses		29	74
<b>Total current assets</b>		<b>2,097</b>	<b>1,810</b>
<b>Total assets</b>		<b>2,399</b>	<b>2,152</b>
<b>Equity</b>			
		<b>1,758</b>	<b>1,818</b>
Trade and other payables	9	52	126
Deferred financing	10	587	208
Taxes and other		2	-
<b>Total current liabilities</b>		<b>641</b>	<b>334</b>
<b>Total liabilities</b>		<b>641</b>	<b>334</b>
<b>Total equity and liabilities</b>		<b>2,399</b>	<b>2,152</b>

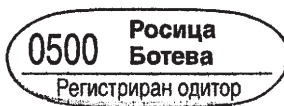
These consolidated financial statements were approved by the Board of Trustees on 28 June 2012. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski  
Executive Director  
28 June 2012



Initialed for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
2 July 2012

Applied Research and Communications Fund (The Group)  
Consolidated Statement of Comprehensive Income, 31 December 2011

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2011	31 December 2010
Revenue	11	993	1,313
Cost of sales	12	(1,189)	(1,307)
<b>Gross profit/(loss)</b>		<b>(196)</b>	<b>6</b>
Other operating income		3	321
Impairment losses		107	4
<b>Operating profit</b>		<b>(86)</b>	<b>331</b>
Financial income		37	31
Financial expenses		(8)	(10)
<b>Net financial income/(expense)</b>	<b>13</b>	<b>29</b>	<b>21</b>
<b>Profit/(Loss) before income tax</b>		<b>(57)</b>	<b>352</b>
Income tax expense	14	(3)	(1)
<b>Net profit/(loss) for the period</b>		<b>(60)</b>	<b>351</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		<b>(60)</b>	<b>351</b>

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Nickolay Badinski  
Executive Director  
28 June 2012



Initialed for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
2 July 2012






Applied Research and Communications Fund (The Group)  
Consolidated Statement of Changes in Equity, 31 December 2011

(all amounts in BGN thousand)

	Note	Retained earnings	Total
<b>Balance as at 1 January 2010</b>		<b>1,467</b>	<b>1,467</b>
Net loss for the year		351	351
<b>Balance as at 31 December 2010</b>		<b>1,818</b>	<b>1,818</b>
<b>Balance as at 1 January 2011</b>		<b>1,818</b>	<b>1,818</b>
Net profit for the year		(60)	(60)
<b>Balance as at 31 December 2011</b>		<b>1,758</b>	<b>1,758</b>

These consolidated financial statements were approved by the Board of Trustees on 28 June 2012. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski  
Executive Director  
28 June 2012



Initialled for identification purposes in reference to the audit report:

Rositsa Boteva  
Registered Auditor  
2 July 2012



(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2011	31 December 2010
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		(57)	352
Adjustments for:			
Depreciation and amortisation	5,6	53	63
Net interest income accrued		(37)	(31)
		<u>(41)</u>	<u>384</u>
Changes in working capital:			
Decrease of inventory		(21)	(74)
Decrease/(Increase) of trade and other receivables and deferred expenses		307	(364)
(Decrease)/Increase of trade and other payables		<u>245</u>	<u>(54)</u>
<b>Cash flow from operating activities</b>			
		37	31
Interest received		(3)	(1)
Income tax paid		<u>279</u>	<u>(24)</u>
<b>Net cash flows from operating activities</b>			
<b>Cash flows from investment activities</b>			
Purchase of property, plant and equipment and intangible assets		(13)	-
<b>Net cash flows from investment activities</b>		<u>(13)</u>	<u>-</u>

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2011	31 December 2010
<b>Cash flows from financing activities</b>		-	-
<b>Net cash flow from financing activities</b>		-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>266</b>	<b>(24)</b>
Cash and cash equivalents at the beginning of the period		1,407	1,431
<b>Cash and cash equivalents at the end of the period</b>	9	<b>1,673</b>	<b>1,407</b>

These consolidated financial statements were approved by the Board of Trustees on 28 June 2012. They are signed on behalf of the Board of Trustees by:

Nickolay Badinski  
 Executive Director  
 28 June 2012



Initialed for identification purposes in reference to the audit report:

Rositsa Boteva  
 Registered Auditor  
 2 July 2012




## 1. Background and activities

**Applied Research and Communications Fund** (“the Fund”), established in 1991, is a not-for-profit organisation with its legal seat in Republic of Bulgaria. Its main objectives are:

- To drive the development of the **knowledge economy** in Bulgaria and Europe in line with the renewed Lisbon objectives;
- To promote innovation in the European economy and facilitate the transfer of new and advanced technologies and know-how;
- To support **cross-border networking** and **capacity building** of businesses, public agencies or private organizations, by using the advances in information and communication technologies.

In pursuit of these objectives, ARC Fund designs and implements strategies for capacity building of NGOs, information society development and technological innovation.

The consolidated financial statements of the Fund for the year ended 31 December 2011 comprise the Fund and its subsidiary Arc Consulting EOOD (together referred to as the “Group”).

The Fund owns 100 % of the share capital of its subsidiary: Arc Consulting EOOD. Arc Consulting EOOD is a limited liability company established in Republic of Bulgaria. The company is registered in Sofia City Court with act № 9428/2006 from 28 August 2006. Its core activity is offering of consultancy services in the area of policies and practices of the European Union.

As of 31 December 2011 the Group has 28 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 28 June 2012.

## 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 Fund and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent Fund, 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.

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

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

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

## **2.1. Basis of preparation**

### *Transactions with non-controlling interests*

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

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

*New and amended standards, adopted by the Group:*

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2010 are not early adopted by the Group because management of the Group believes that they are not currently relevant to the Group although they may affect accounting for future transactions and events.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 are not early adopted by the Group. They are not relevant to Group although they may affect accounting for future transactions and events.

## **2.2. Foreign currency transactions**

### **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 in these consolidated financial statements 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 statement of comprehensive income.

## **2.3. Property, plant and equipment**

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

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

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

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

Buildings	25 years
Computers and equipment	2-6.67 years
Vehicles	5 years
Fixtures and fittings	2 - 6 years

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

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

#### **2.4. Intangible assets**

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

##### *Subsequent expenditures*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic 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 usually for 4-5 years.

#### **2.5. Financial assets**

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

##### *Financial assets at fair value through profit or loss*

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

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2010.

##### *Loans and receivables*

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

##### *Held-to-maturity*

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

#### *Available for sale financial assets*

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

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

### **2.6. Inventory**

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

### **2.7. Trade and other receivables**

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

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

### **2.8. Cash and cash equivalents**

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

### **2.9. Investment property**

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



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

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

## **2.10. Borrowings**

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

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

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

## **2.11. Deferred tax**

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

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

## **2.12. Employee benefits on retirement**

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years.

As of 31 December the Group has not accounted for those potential obligations.

## **2.13. Revenue recognition**

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

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group

bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *Sales of services*

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

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

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

#### *Revenue from grants and contributions*

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

#### *Interest income*

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

## **2.14. Dividend distribution**

The Group does not distribute dividends.

## **3. Financial risk management**

### **3.1. Global financial crisis**

#### **Impact of the ongoing global financial and economic crisis**

The global financial crisis has had a severe effect on the Bulgarian economy and the financial situation within the Bulgarian financial and corporate sectors has significantly deteriorated since mid-2008. In 2010, the Bulgarian economy experienced a moderate recovery in economic growth. The recovery was accompanied by increased export and increased rate of household savings.

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

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group.

The Bulgarian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world. Management is unable to determine reliably the effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

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

### **Impact on customers/borrowers**

The debtors or borrowers of the Group may also be affected by the lower liquidity situation which could, in turn, impact their ability to repay the amounts owed. The operating conditions for customers 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 its 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 Group's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Group.

### **3.2.2. Interest rate risk**

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group analyses its interest rate exposure on a regular 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.

The Group has established and implemented policy, which ensures that the sales of services and revenues from financing are provided to/by clients and organisations with appropriate credit history.

### 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.

<b>As at 31 December 2011</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	52	-	-	-
<b>As at 31 December 2010</b>	<b>Up to 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Trade and other payables	126	-	-	-

## 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

	<b>Computers and equipment</b>	<b>Vehicles</b>	<b>Fixtures and fittings</b>	<b>Total</b>
<b>Cost</b>				
As at 1 January 2010	156	148	23	327
Additions	-	-	-	-
Disposals	-	-	-	-
<b>As at 31 December 2010</b>	<b>156</b>	<b>148</b>	<b>23</b>	<b>327</b>
Additions	13	-	-	13
Disposals	-	-	-	-
<b>As at 31 December 2011</b>	<b>169</b>	<b>148</b>	<b>23</b>	<b>340</b>
<b>Amortisation</b>				
As at 1 January 2010	142	30	19	191
Written of depreciation	10	37	3	50
Disposals	-	-	-	-
<b>As at 31 December 2010</b>	<b>152</b>	<b>67</b>	<b>22</b>	<b>241</b>
Depreciation charge	5	36	-	41
<b>As at 31 December 2011</b>	<b>157</b>	<b>103</b>	<b>22</b>	<b>282</b>
<b>Net book value</b>				
<b>As at 1 January 2010</b>	<b>14</b>	<b>118</b>	<b>4</b>	<b>136</b>
<b>As at 31 December 2010</b>	<b>4</b>	<b>81</b>	<b>1</b>	<b>86</b>
<b>As at 31 December 2011</b>	<b>12</b>	<b>45</b>	<b>1</b>	<b>58</b>

## 6. Investment property

	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>As at 1 January</b>		
Carrying amount at the beginning of the year	256	269
Depreciation charge	<u>(12)</u>	<u>(13)</u>
<b>Net book value at the end of the year</b>	<b><u>244</u></b>	<b><u>256</u></b>
<b>As at 31 December</b>		
Cost	303	303
Accumulated depreciation	<u>(59)</u>	<u>(47)</u>
<b>Net book value</b>	<b><u>244</u></b>	<b><u>256</u></b>

Investment properties held by the Group represent apartments and office space owned by Arc Consulting EOOD. Investment properties are carried at cost, less accumulated depreciation and impairment.

## 7. Trade and other receivables

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Trade receivable and receivables on projects financing	381	328
Prepaid corporate tax	-	-
Other	<u>14</u>	<u>1</u>
	<b><u>395</u></b>	<b><u>329</u></b>

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

## 8. Cash and cash equivalents

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Cash at hand	71	106
Cash in bank current accounts	<u>1,602</u>	<u>1,301</u>
	<b><u>1,673</u></b>	<b><u>1,407</u></b>

## 9. Trade and other payables

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Trade payables	52	101
VAT	-	23
Other	-	2
	<b>52</b>	<b>126</b>
	<b>52</b>	<b>126</b>

## 10. Deferred financing

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
EC – Citizen Visions for the Future of Science Technology and Innovation	164	-
EC – Enterprise Europe Network (EEN)	361	-
EC – Scoping China’s Environmental Research Excellence and Major Infrastructure	2	88
Save the Children (Norway) – Comprehensive response to on line child sexual abuse	16	13
EC – Setting Up Combined Safer Internet Node in Bulgaria (Phase 3)	-	73
OAK Foundation – Children in Virtual and Real Violence – Prevention by Discourse and Education	34	20
EC – Transport EU-Western Balkan Network for Training, Support and Promotion of Cooperation in FP7 research activities	-	12
<b>Total deferred financing, related to projects</b>	<b>577</b>	<b>206</b>
<b>Financing for acquisition of fixed assets</b>	<b>10</b>	<b>2</b>
	<b>587</b>	<b>208</b>

## 11. Revenue

Revenues from grants, financing and projects for the annual periods include:

	<b>2011</b>	<b>2010</b>
EC – Setting Up Combined Safer Internet Node in Bulgaria (Phase 3)	249	106
EC – Enterprise Europe Network (EEN)	91	161
EC – Inter-regional cooperation mechanisms for the exploitation of the R&D potential in South Eastern Europe	90	31
EC – Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region	89	-
EC – Scoping China’s Environmental Research Excellence and Major Infrastructure	86	57
EC – Business kit for Creative start-ups in IPR, Venture capital and Entrepreneurial skills	78	51
EC – Research Infrastructures: Foresight and Impact	54	27
EC – Setting Up Combined Safer Internet Node in Bulgaria (Phase 2)	-	119
EC – Transport EU-Western Balkan Network for Training, Support and Promotion of Cooperation in FP7 research activities	-	118
Open Society Institute – e-Bulgaria 2020	-	52
OAK Foundation – Children in Virtual and Real Violence – Prevention by Discourse and Education	39	55
EC – Citizen Visions for the Future of Science Technology and Innovation	30	60
Other	86	233
Revenue from projects financing	<u>892</u>	<u>1,070</u>
Revenue from services	98	235
Revenue from financing of fixed assets acquisition	3	8
	<b><u>993</u></b>	<b><u>1,313</u></b>



## 12. Cost of sales

Cost of sales for the Group include:

	<b>2011</b>	<b>2010</b>
Expenses for materials and consumables	15	5
External services expenses	614	933
Depreciation and amortisation	53	63
Salaries and social securities	294	205
Other expenses	213	101
	<u><b>1,189</b></u>	<u><b>1,307</b></u>

## 13. Financial income/(expense), net

	<b>2011</b>	<b>2010</b>
Interest income	<u>37</u>	<u>31</u>
		<b>31</b>
Interest expense	-	-
Foreign exchange gains/(losses), net	(3)	(7)
Other financial expenses	<u>(5)</u>	<u>(3)</u>
	<u><b>(8)</b></u>	<u><b>(10)</b></u>
<b>Financial income, net</b>	<u><b>29</b></u>	<u><b>21</b></u>

## 14. Income tax expense

The major components of income tax expense for the year ended 31 December 2011 and the period ended 31 December 2010 are:

	<b>2011</b>	<b>2010</b>
Current tax	(3)	(1)
Deferred tax	-	-
<b>Income tax expense</b>	<u><b>(3)</b></u>	<u><b>(1)</b></u>

Bulgarian tax legislation is subject to varying interpretations and constant changes. Furthermore, the interpretations of tax authorities as applied to the transactions and activity of the Group may not coincide with that of the management. As a result tax authorities may challenge the way of calculating tax losses carried forward as well as assess additional taxes, penalties and interest, which can be significant.

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.

## 15. Related parties

The Group is related to the Center for the Study of Democracy, and thus is also related with its subsidiaries.

During the period the following transactions and balances has occurred:

Related party	Transactions during the year	January-December		31 December		31 December	
		2011	2010	2011	2010	2011	2010
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Project 1	Consultancy services	48	150	150	150	48	-
	Rental Agreement	45	45	-	-	-	1
Vitoshka Research	Contract for development of research project	-	24	-	-	-	-
	Consultancy services on EEN project	-	2	-	-	-	-
	Consultancy services	-	14	-	-	-	-
Center for the Study of Democracy	Rental Agreement	45	45	-	-	-	-
		<b>138</b>	<b>280</b>	<b>150</b>	<b>150</b>	<b>48</b>	<b>1</b>

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

The Group is a related party with its executive directors and management board. The total amount of the paid remunerations, honoraria and social securities, included in salaries and benefits and expenses for hired services is as follows:

	2011	2010
Board of Directors	<u>179</u>	<u>63</u>

## 16. Events after the balance sheet date

There are no events after the balance sheet date of the Group that would require additional disclosures in the financial statements.