

2013

Annual Report



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Applied Research and Communication • Fund •

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# **Applied Research and Communications Fund 2013 Annual Report**

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# Introduction

Over the past 22 years, the Applied Research and Communications Fund (ARC Fund) has established itself as a premier force in innovation policy and socio-economic research in Bulgaria. It has contributed to the creation of preconditions whereby social, technological and environmental innovation can be developed and utilized. It strives to support the development of a knowledge-based and high value-added economy, assist in the transfer of new and advanced technologies, and in the transposition of good policy practices and networking opportunities for Bulgarian businesses. ARC Fund works towards the aggregation of data in the development of an evidence base which helps in the design of forward-looking public policies. ARC Fund recognizes, however, that a knowledge and information-based society comes with both known, and unknown, risks. In various project-based contexts, ARC Fund aims to assess and offer potential ways of avoiding or minimizing these uncertainties.

In 2013 ARC Fund work includes: public sector innovation and human resources management; societal participation in policy-making; energy policy design at the local level; innovation system development, evaluation and monitoring; environmental policy prioritization; business networking and incubation; workplace innovation; applications of ICT in society; and national broadband coverage assessments. In line with the acknowledgement that innovation involves a high degree of uncertainty and risk, ARC Fund undertakes research also on technology assessment and on ensuring children's and youths' online safety. Beyond its partnerships within EU-28 Member States, it also works with public and private institutions from the Western Balkan countries, China, Russia, and Central Asia.

At present, ARC Fund's strategic focus is expanding into new innovation-related research areas. While technological innovation forms the core component of ARC Fund's expertise, new areas such as workplace innovation, social innovation, and sustainable innovation are gaining an increasingly important role. As an active partner of the European Learning Network for Workplace Innovation (EUWIN), ARC Fund help stimulate innovative models in the workplace which improve productivity and creativity, communication within organizations, as well as the commitment and sense of personal fulfilment of employees.

In the realm of social innovation, ARC Fund recognizes the need to bring EU citizens and public authorities closer together. This is done not only in the name of improving the democratic legitimacy of governments, but also in the positive benefits that co-development and wide-ownership of a shared vision for society can bring.

ARC Fund increasingly recognizes the need to alter the trajectory of our societies and economies towards a paradigm that respects environmental limits. Sustainable innovation integrates solutions to complex challenges that often result from the desire to improve quality of life of growing populations, but at the cost of environmental degradation and/or increased socio-economic and technological dis-balances.

The 2013 edition of the annual *Innovation.bg* report presented at the Ninth National Innovation Forum highlights a three-year trend of a widening innovation gap between Bulgaria and the EU averages, which had previously shrunk considerably in the period 2006-2010. Main reasons for this are the cuts in public funding from 2010 onwards. However, despite such a trend, positive developments in the national innovation performance are also evident: there has been annual growth of over 20% for trademarks and R&D in the business sector, as well as increases in the export of innovation services, scientific co-publications between private and public partners, and registered community designs.

Within the framework of the National Innovation Forum, the National Contest ‘Innovative Enterprise of the Year 2013’ was held for the ninth consecutive year. The competition resulted in the presentation of awards to innovative companies in seven categories. The firm Mechatronica S.C. won in the category “Market Leader”; Interconsult Bulgaria Ltd. won in the category “Innovation Hub”; three companies, including Ucha Se Ltd. (Teach Yourself), HutGrip Ltd., and Playground Energy Ltd., won in the category “Innovative Start-Up”; Robopartans Ltd. won in the category “Social Connections”; AMG Technologies Ltd. won in the category “Sustainable Innovative Behaviour”; DeConi International S.C. won in the category “Green Innovation”; and Amet Ltd., won in the category “Quality of Life”.

These innovation awards are a key extension to the business support and technology transfer activities of ARC Fund. As the National Coordinator of the 14 Bulgarian nodes of Enterprise Europe Network, ARC Fund has developed strong traditions in helping small businesses in the country internationalize and innovate through the stimulation of business partnerships and technology transfer services, and in helping SMEs to access funding opportunities. More specifically, major business support projects where ARC Fund was involved have focused on ICT for aging, on efforts to help stimulate workplace innovation, and on developing favorable policy and networking conditions for the digital gaming industry. ARC Fund also continues to build its capacity and expertise in the area of forward-looking research and policy development. Efforts in this area range from the provision of support in the development of municipal energy strategies, to the development of parliamentary technology assessment in Europe and Bulgaria. Additionally, considering the new EU programming period from 2014-2020, ARC Fund has also committed itself to stimulating increased societal engagement and prioritization in research and innovation through the aggregation, elaboration and support to the development of participatory engagement tools.

In its mission to drive the development of the knowledge economy in Bulgaria, the organization puts a particular emphasis on both protecting the online user-experience, as well as working to expand online connectivity in the country. As a member of the European Network of Safer Internet Centers (Insafe) and a member of the International Association of Internet Hotlines (INHOPE) ARC Fund continues to coordinate and operate the national Safer Internet Centre. The hotline consultants have responded to hundreds of calls from minors, parents and teachers concerned with the online safety of children. The hotline has received and addressed with the responsible authorities close to 1000 reports of child pornography, sexual solicitation of minors over the internet, harmful content viewable by children, and cyber-bullying.

### **ARC Fund’s Key Achievements in 2013**

- In 2013, ARC Fund and ARC Consulting worked on 26 projects, with a total of 224 different partners from across the globe, including civil society organizations, public authorities, research and academic institutions, and private companies.
- In 2013, ARC Fund promoted the openness of local authorities and the introduction of innovative public services by supporting the evaluation and award procedure of the European Label for Innovation and Good Governance at the Local Level, coordinated by the Ministry of Regional Development.
- Following the collection of an online survey and in-depth interviews with innovation stakeholders within the context of the ‘Complex Challenges – Innovative Cities’ (CCIC) project, supported under the INTERREG IVC Program of the European Union,

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ARC Fund undertook analyses and produced a state-of-the-art report on public sector innovation<sup>1</sup>.

- Within the context of the 'Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region' (EVAL-INNO), project, funded under the South East Europe Translational Cooperation Program, ARC Fund organized a RTDI Evaluation Training Course for evaluation experts and program owners from March 18<sup>th</sup>-22<sup>nd</sup>.
- The Bulgarian Safer Internet Centre's online game, Zone of Risk, was nominated for the World Summit Award as the best e-Content example in the category of 'e-Learning & Science' from Bulgaria.
- ARC Fund organized a workshop within the framework of the 'Parliaments and Civil Society in Technology Assessment' (PACITA) project from April 17<sup>th</sup>-19<sup>th</sup>, 2013. The workshop and project, supported under the Seventh Framework Program of the European Union, aimed to train technology assessment practitioners on how to select and use various tools of parliamentary technology assessment.
- On Safer Internet Day on February 5<sup>th</sup>, ARC Fund organized the TeeNet Parliament, where over 100 Bulgarian students gathered to vote on a Charter of Online Rights of the Youth. The event was streamed online.
- The fifth annual Famillathon was held on May 18<sup>th</sup>. This is an outdoor event in Sofia where more than 30 clubs and sports federations participated and activities for families were organized. At the event, more than 2,000 families were acquainted with the basic rules of online safety of children.
- On June 16<sup>th</sup> and 17<sup>th</sup>, ARC Fund organized a Key Technologies Workshop Training and Key Technologies Workshop within the 'Energy Vision 2020 for South East European Cities' (EnVision2020) project. At the training, information regarding the conceptual and practical aspects of key technologies workshops was presented. At the Key Technologies Workshop, potential and emerging energy technologies with relevance until 2020 were identified.
- ARC Fund, in collaboration with partners from the 'Boosting the European Games Industry' (BOO-Games) project, produced an abridged version of the Regional Analysis Report for companies, policy-makers and other stakeholders.
- ARC Fund produced a benchmarking analysis of the Institute of Electronics of the Bulgarian Academy of Sciences. This analysis was conducted within the 'Fostering Evaluation Competencies in Research, Technology, and Innovation in the SEE Region' (EVAL-INNO) project.
- As coordinator of Enterprise Europe Network (EEN) in Bulgaria ARC Fund continued helping the internationalization of Bulgarian SMEs by creating business partnerships, encouraging and supporting innovation via technology transfer and innovation support services, and facilitating access of Bulgarian SMEs to EU programs and funding. Particular focus this year has been placed on collaboration with national and regional business clusters and uptake of the EEN services among the start-ups. 200 new companies and business and research bodies benefited from EEN consultancy and information support this year.
- The Ninth National Innovation Forum Innovation and Sectoral Competitiveness, organized by ARC Fund, outlined the state and trends of the innovations environment in Bulgaria. Nine Bulgarian companies received awards for their excellent innovative performance.
- ARC Fund joined AgeingWell Thematic Network – a EU-wide network of 16 partners and more than 40 associate organizations from the business, academia, NGO and public sector focused on improving the quality of life of elderly people by promoting the market uptake of ICT solutions for the facilitation of the aging process.

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<sup>1</sup> Innovation in the Public Sector, State-of-the-Art Report, September, 2013. Available at: [www.ccic-project.eu/wp-content/uploads/2013/10/CCIC-State-of-the-art-report-SotAreport.pdf](http://www.ccic-project.eu/wp-content/uploads/2013/10/CCIC-State-of-the-art-report-SotAreport.pdf)



- Within the KNOW-HUB initiative ARC Fund continued its close partnership with Gabrovo municipality for empowering local administration and innovation actors on smart specialization strategies. Together with the partners from 10 EU regions, the two Bulgarian organizations collaborated in reviewing regional policies and practices to identify issues for improvement and good practices to share with others.
- In 2013, ARC Fund became part of the ETNA Plus network of the National Contact Points in Transport for the 7th Framework Program and Horizon2020 of EC. The network activities are focused on promoting the active participation of new actors and regions in EU research calls and projects. ARC Fund contributed to the biggest ETNA Plus event by co-organizing the b2b meetings and the presentation session for finding project partners within the “Smart, Green and Integrated Transport” Information Day, December 18<sup>th</sup>, 2013 in Brussels.

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# **PART ONE**

## **Program Areas**

# Science, Innovation and Information Society

*Innovation.bg 2013*



The annual *Innovation.bg* report provides a reliable assessment of the innovation potential of the Bulgarian economy and the state and development capacity of the national innovation system. It puts

forward recommendations for improving public policy in the field of innovation by drawing on the latest theoretical and empirical research, while taking into account the specific economic, political, cultural, and institutional framework in the country. For a ninth consecutive year, the report raises the awareness of the importance of innovation as a factor for setting national priorities in support of the future development of the country.

The report is intended for decision-makers in the public sector and representatives of innovative Bulgarian businesses. Following the methodology established by preceding editions, *Innovation.bg 2013* examines the dynamics in the performance of the national innovation system on the basis of five groups of indicators, including:

- Overall innovation product;
- Entrepreneurship;
- Investment and financing of innovation;
- Human capital for innovation;
- Information and communication technologies (ICT).

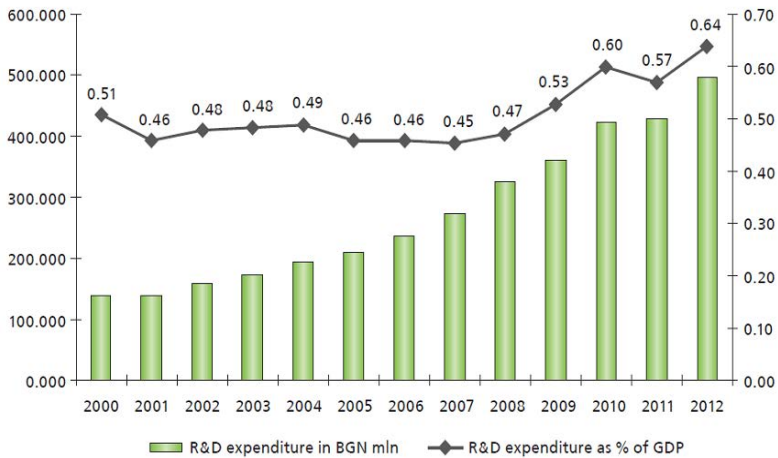
As with last year's report, *Innovation.bg 2013* pays special attention to the development of the Bulgarian ICT sector and its contribution to the economic growth of the country. The report highlights that, in the last decade, Bulgaria and the ICT sector have become a successful model not only with respect

to outsourced call centers, software development and hardware production, but also in providing an environment favorable to R&D and innovation which meets the needs of multinational companies. The regular Broadband Coverage Study, which ARC Fund has conducted for a third consecutive year, revealed that almost the whole population (98%) resides in places where basic broadband access is available, and that Bulgaria is among the top performers in the EU under this indicator. Capitalizing on the national advantages for digital growth could be jeopardized in the short term unless the advances made by business are not supported by a government policy of expanding public e-services, encouraging the upgrading the e-skills of the public, and enhancing e-inclusion.

In addition, this year's edition of *Innovation.bg* focuses on the innovation potential of the pharmaceutical sector, which has been identified as one of the priority sectors for Bulgaria, and on whose basis smart specialization at regional and national level should be developed. Despite the on-going economic and financial crisis, the sector features relatively high and rising levels of patent activity, exports, capital investments and labor productivity. The pharmaceutical sectoral analysis revealed that companies in Bulgaria produce generic pharmaceuticals and are oriented towards the low-cost end of the market. Furthermore, the local pharmaceutical industry does develop low-cost innovations, although they have relatively small R&D budgets, which prevents them from engaging in high-tech and costly specialization. The complex role of public authorities in the pharmaceutical sector involves the creation of a competitive environment which would guarantee that citizens have access to cutting-edge and safe medicines at acceptable prices.

## Investment and Financing for Innovation

Figure 1. R&amp;D expenditures in Bulgaria



Source: NSI data, 2013

During the period examined in the Innovation.bg 2013 report, several positive trends shaped the national science and innovation landscape. Bulgarian researchers continued to perform relatively well in the Seventh Framework Program of the EU for the period 2007-2013. If the number of successful projects is compared to national GDP, as well as to R&D expenditures for the duration of the entire program, the country ranks respectively 5th and 3th in EU27. This is a testament both to the determined activities of Bulgarian scientists as well as to the relatively low GDP and R&D expenditures in the country. In addition, in 2012, Business Expenditure on R&D increases. Another positive development is the announcement of the Sixth Funding Session of the National Innovation Fund at the end of 2012, after it has ceased to support new projects following the economic and financial crisis.

Against this backdrop, Bulgarian governments have focused their efforts on securing short-term fiscal stability and shelved the measures geared at strengthening the national competitive advantages and fos-

tering sustainable economic growth based on advanced technological knowledge and high-quality human capital. As noted in previous editions of the report, and as reflected in the policy recommendations, several sizable challenges threaten to undermine the potential of the country's innovation system. These include:

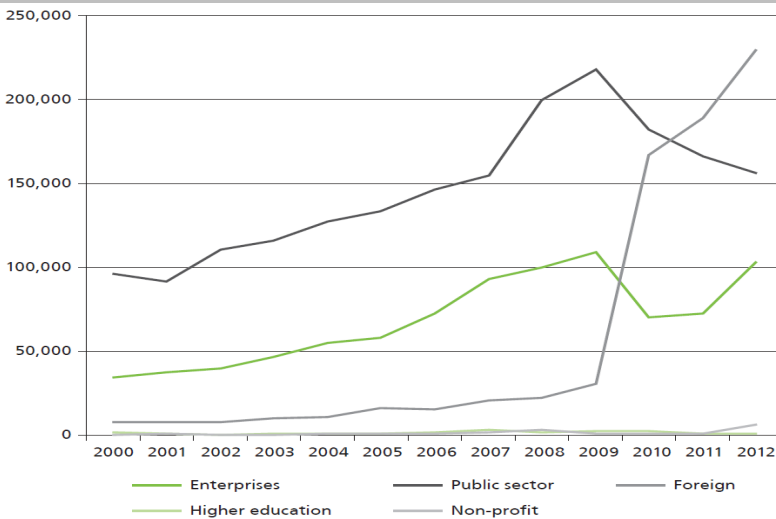
- A low level of R&D investments compared to Gross Domestic Product (0,57% of GDP in 2012), guaranteed mostly by external sources without a clear-cut government commitment for direct funding (subsidies, grants) or indirect promotion (tax incentives) of innovation;
- A high concentration of R&D expenditures in one region of the country;
- A severed link between science, education and business with declining values of research contracts commissioned by companies to research organization;
- The continuing inability of the government, and other stakeholders, to promote open innovations and knowledge transfers between public R&D institutions and the private sector;

- Low level human capital investments and a slow increase in the number of researchers.

With the draft Innovation Strategy for Smart Specialization 2014 – 2020, developed by the Ministry of Economy and Energy, Bulgaria confirmed its intention to achieve increased R&D expenditures. These include the desire to reach 1.5% of GDP by 2020 – a national objective also declared with the adoption of the National Reform Program 2011 – 2015. However, the announcement of the ambitious objective was not followed by targeted measures to increase

public expenditure for research and to support business in the implementation of innovation projects. The continuous decline in public R&D expenditure is compensated only by the growing investments stemming from foreign sources. Without such, R&D expenditures by all institutional sectors in Bulgaria would have shrunk to 0.34% of GDP for 2012. For the first time since the outburst of the crisis there was a considerable increase in business investment in R&D, mainly in the form of co-funding under European programs.

**Figure 2. R&D expenditures by institutional sector, BGN thousands**



Source: NSI data, 2013

### National Innovation Policy

The political messages and priorities in the field of research, technological development and innovation have been distilled in the drafts of the Operational Programs “Innovations and Competitiveness” and “Science and Education for Smart Growth”, as well as in the Innovation Strategy for Smart Specialization. Although these strategic documents entail almost all innovation support mechanisms in the country during the next programming period from 2014-2020,

they are not perceived by the relevant stakeholders as a genuine expression of increased political will. The three documents maintain divisions in the design and delivery of science, technology and innovation policy among various ministries, and do not build the necessary bridges across these connected and overlapping fields.

While the European Commission has stated its intentions to make regional competitive advantages a priority, and foster the

implementation of a specific set of measures for their development, the Innovation Strategy for Smart Specialization has been drafted at the national level. Furthermore, European funds remain the principal source of funding for Bulgaria's innovation policy, which can result in misalignments of funding and national objectives and priorities. The number of staff engaged in R&D is an additional challenge, particularly in some of the suggested priority sectors.

*Innovation.bg 2013* highlights the disparity in the remuneration of scientists and experts on national and geographic grounds for projects funded under European research programs. Even though such projects generate "European added value", the European Commission places the participants from the new Member States at a disadvantage and thus encourages brain drain. Some measures for changing the existing practices could include applying a single payment scheme regardless of nationality, and the establishment of an administrative liaison office in Brussels to help support applications from Bulgaria. This is the standard practice of nearly all countries, as well as of a number of municipalities, associations and companies.

The policy recommendations put forward in previous editions of *Innovation.bg* continue to hold true in 2013. The lack of concrete and sustainable actions by Bulgarian governments, in spite of their involvement

in the process at the highest political level, is indicative of the institutional deficiency in the development and application of policies in this field. During the planning of the next EU programming period 2014-2020 particular attention should be placed on the following reforms and measures:

- Merging the numerous government units responsible for the implementing and funding R&D and innovations into a single administrative structure;
- Adopting an integrated national strategy with a focus on the interaction between science, education and innovation, and with a limited number of priorities and dedicated funding;
- Providing national co-funding for Bulgarian organizations which have succeeded in attracting funds for research and innovations from the European Framework Programs;
- Prioritizing the implementation of projects funded under the JEREMIE program and Techno Park Sofia;
- Focusing on measures for encouraging innovation among low-tech micro and small enterprises;
- Prioritizing measures for technological and innovation development in traditional sectors such as tourism, textiles, construction and agriculture;
- Promoting measures in support of a culture of innovation (museums, international forums, school and student projects, etc.).

#### *Ninth National Innovation Forum & Contest for Innovative Enterprise 2013*

On December 5<sup>th</sup>, 2013, Applied Research and Communications Fund and Enterprise Europe Network – Bulgaria organized the Ninth National Innovation Forum "Innovation and Sectoral Competitiveness". The forum traditionally receives support from the Representation of the European Commission in Bulgaria. As in previous years, the forum was structured around the findings of the annual report on the innovation develop-

ment in Bulgaria *Innovation.bg 2013* and the national contest for Innovative Enterprise of the Year. The unique character of the National Innovation Forum stems from the fact that it unites the efforts of and brings together all stakeholders to discuss the innovation environment in the country and to propose optimization measures.



*Ninth National Innovation Forum, from left to right: Mr. Rosen Plevneliev, President of the Republic of Bulgaria; Dr. Ognian Shentov, Chairman, Applied Research and Communications Fund; and Mr. Ognian Zlatev, Head of EC Representation in Bulgaria*

Mr. Ognian Shentov, Chairman of the Applied Research and Communications Fund, opened the Ninth National Innovation Forum and outlined several thematic fields with crucial importance for the competitiveness of the country, such as the need for a radical improvement of the public policies in innovation but also in education, health care and rule of law. Mr. Shentov however emphasized that the accumulation of a critical mass of innovative companies and leaders only partly compensates the deficiencies of the Bulgarian public policies and innovation ecosystem.

The President of Republic of Bulgaria, Mr. Rossen Plevneliev, sketched out number of persisting problems of the national innovation system: (a) unintegrated approach towards designing and implementing public policies in the field; (b) inconsistency between existing strategic documents; (c) lack of a national mechanism for coordination between relevant stakeholders; (d) instability and frequent shifts in the national strategic priorities.

Mr. Ognian Zlatev, Head of EC Representation in Bulgaria, noted that against the backdrop of a shrinking EU budget for the next programming period the EU Commission and Parliament dedicated a historically large amount of resources for research and innovation, for which Bulgarian scientist and innovative businesses can compete on an equal footing.

Mr. Ruslan Stefanov, Coordinator of Innovation.bg Group, presented the findings of the *Innovation.bg 2013* report and summarized that the current situation in the country with regard to innovation remains alarming. In this context, he highlighted important positive developments, such as the considerable increase R&D expenditures made by the Bulgarian business.

Mr. Thomas Bruns, Senior Commercial Officer in the U.S. Embassy in Sofia, made an overview of the main innovation absorption channels within the framework of US – Bulgarian relations (e.g. FDIs and trade and license

agreements) - and highlighted the growing investment interest on the part of technology intensive U.S. companies in the fields of biotechnologies and telecommunications.

Mr. Deyan Denev, chairman of the Association of Research-Based Pharmaceutical Companies in Bulgaria, presented the features of the innovation activity in one of the most innovative industries in Bulgaria - the pharmaceuticals.

Mr. Ivaylo Penchev, CEO of Walltopia Ltd. and awardee of Innovative Enterprise of 2012 prize, put the emphasis on the well-functioning secondary education for the development of competitive and innovative businesses in the country. This view was supported by the awardee of the National Contest in its 2010 edition – Mr. Stefan Deevski, CEO of AMK – Gabrovo. Mr. Deevski pointed at the possibilities of the private sector to proactively defy these trends by individual or coordinated initiatives.

Mr. Ventsislav Slavkov, Chairman of the Mechatronics and Automation Cluster, noted that given the special nature of innovation activity what is important is the institutional and business environment, and only after it comes the availability of effective mechanisms for direct support.

During the Forum, the President of Republic of Bulgaria, Mr. Rosen Plevneliev awarded the finalists in the National

Contest for Innovative Enterprise of the Year.

The contest has been open to all active Bulgarian companies that have successfully developed and implemented innovations within the past three years.<sup>2</sup>

The contest included the following fields:

- Market Leadership (innovative products recognized on the international market);
- Innovation Hub (process innovations implemented by a number of clients);
- Quality of Life (innovation for improved quality of life for users);
- Green Innovation (innovation in the field of sustainable and environmentally sound development);
- Sustainable Innovative Behaviour (continuous innovative activity in the last 6 years);
- Social Impact (innovation with positive impact on the development of innovation behaviour in society);
- Innovative Start-Up Enterprise (created within the past three years);

The winning companies were awarded in a special ceremony during the Ninth National Innovation Forum on December 5, 2013 in Sofia. The prizes were awarded by Mr. Rosen Plevneliev, President of the Republic of Bulgaria. The finalist in the field “Quality of Life” is AMET ltd – developer and producer of electronic medical equipment for their apparatus for cancer cells destruction.



*Mr. Ruslan Stefanov, Coordinator of Innovation.bg Group, presenting Innovation.bg 2013 at the Ninth National Innovation Forum*

<sup>2</sup> Since January, 2011.



The recognition for green innovation was given to DeConi International for their unique 3D Ecobus – a mobile module for green education of kids and adults. AMG Technology – a developer and producer of semiconductor technologies and integrated micro-electromechanical systems (MEMS) - was recognized for its Sustainable Innovative Behaviour. Robopartans Ltd is finalist for Social Impact for their school of robotics that promote the students' interest in Physics, Computer Science, Mathematics, Information and Communications Technology. For the first time this year a special category for innovative start-ups was set up. Three Bulgarian start-up companies were recognized. Playground energy Ltd. developed and produces playground toys that convert the kinetic energy of kids playing with them into sounds and lights,

thus stimulating their physical and mental activity. Hutgrip created software as a service system for management, control and prevention of industrial disruptions, and optimisation of production processes and resources. Ucha.se Ltd develops complex multimedia platform for online education that visualize and top up what students from 1<sup>st</sup> to 12<sup>th</sup> grade are taught in school.

The two companies prized in the contest “Innovative Enterprise of the Year” are Mechatronika – for their global market leadership in manufacture of machines for laminated tubes and tube filling automation, and Interconsult Bulgaria – leading software developer and consulting company with number of IT innovations implemented in clients from various industries across the world.



*Discussion at the Ninth National Innovation Forum, from left to right: Mr. Thomas Bruns, Senior Commercial Officer in the U.S. Embassy in Sofia; Mr. Ruslan Stefanov, Coordinator of Innovation.bg Group, ARC Fund; Mr. Deyan Denev, chairman of the Association of Research-Based Pharmaceutical Companies in Bulgaria; Ms. Zoya Damianova, Program Director, ARC Fund; Mr. Ivaylo Penchev, CEO of Walltopia Ltd.; Mr. Stefan Deevski, CEO of AMK – Gabrovo; Mr. Ventsislav Slavkov, Chairman of the Mechatronics and Automation Cluster*



*The President of Republic of Bulgaria, Mr. Rosen Plevneliev, together with the winners in the National Contest for Innovative Enterprise of the Year 2013*



*Ninth National Innovation Forum,  
Sofia, 5 December 2013*

## CCIC

The Complex Challenges – Innovative Cities (CCIC) project began in January 2012 as a partnership among 14 organizations from 10 different countries. It is supported by the INTERREG IVC program and the Bulgarian Ministry of Regional Development. The project is targeted at municipal and regional authorities across Europe, and explores the opportunities for successful and sustainable policy making on public sector innovation. As the only organization in the consortium that is not a public authority, ARC Fund has the unique role of providing expertise in the field of innovation and policy-making in science and technology from an analytical point of view.

In 2013, ARC Fund's major effort within CCIC was the completion of an analytical State-of-the-Art Report on Public Sector Innovation. The key objective of the report was to present an overview of how public sector innovation is made possible on the local and regional level. The team analyzed data collected through an online survey (with more than 850 respondents), and in-depth interviews with innovation stakeholders (practitioners, managers, innovation planners, policy and decision-makers, civil society leaders) from the countries participating in the consortium.

The State-of-the-Art Report highlights important trends in terms of how certain characteristics influence innovation thinking, involvement and decision-making. It analyses how innovation is being under-

stood in a public sector context, discussing a number of key opportunity factors, drivers and barriers to innovating and innovation diffusion. Particular attention is paid to innovation opportunities related to public procurement rules and procedures; to specific financial instruments used to support or resulting from innovation; to the specific relations with civil society actors, and to publicly owned enterprises as specific enablers and diffusers of innovation.

The results of the State-of-the-Art Report were presented to the partnering organizations and other stakeholders in September 2013 during an International Partners' Meeting in Italy. The report was used as an input for discussion among project partners and relevant local stakeholders, as well as to provide a general theoretical and empirical framework for an improved understanding of the process of innovating in the public sector. The full text of the report is available for download on ARC Fund's website and on that of the CCIC project.

Additionally, ARC Fund's team contributed to two thematic group seminars, which were organized to discuss two of the thematic foci of the project - public procurement and publicly-owned enterprises. ARC Fund's role during these seminars was to provide feedback to the discussions among the partners from the local and regional authorities based on its expertise in the field of innovation and policy-making in science and technology.

## EVAL-INNO

In 2013, the 'Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region' (EVAL-INNO) project continued to build on the accomplishments of 2012. In achieving its objective of improving national (i.e. in Austria, Bulgaria, Greece, Hungary, Montenegro, Serbia) and regional (South-eastern European) RTDI evaluation capacity and public procurement practices, it proceeded from its preparatory and theoretical stage, to its practical phase. ARC Fund, in its capacity

as the facilitator of these activities within Bulgaria, undertook the following activities:

- Identification of lecturers and the organization of the first Research, Technology Development and Innovation (RTDI) Evaluation Training Course from March 18<sup>th</sup>-22<sup>nd</sup> in Sofia, Bulgaria. Potential and current evaluation experts from scientific organizations attended, as well as RTDI program owners from managing authorities and public agencies;

- Provision of feedback to the institutional benchmarking methodology;
- Undertaking an institutional benchmarking exercise of the Academician Emil Djakov Institute of Electronics of the Bulgarian Academy of Sciences and provision of support to the Hungarian RTDI program benchmarking exercise;
- Development of a benchmarking report based on this exercise;
- Continued maintenance of the EVAL-INNO website, including the on-line database and wiki articles.

The Evaluation Training in Sofia brought together participants from Bulgaria, Romania, Moldova and Greece and was executed by trainers from six countries (Austria, Bulgaria, Greece, Hungary, Montenegro and Serbia). In total, 35 trainees participated in the training. These trainees included both junior experts that attended in order to gain theoretical and practical knowledge, as well as senior experts that came in order to refine their expertise. In addition, Bulgarian lecturers participated in the remaining three EVAL-INNO training courses in Hungary (15-19 April 2013), Montenegro (17-21 June 2013) and Serbia (7-11 October 2013).

The EVAL-INNO partners also held a consultation workshop on the topic of public procurement in RTDI evaluations

in Athens, on 28-29 January, 2013. The objective of the workshop was to present and discuss the results of a comparative needs assessment study on the use of public procurement in innovation evaluation practices in the six partner countries. The workshop was attended by members of the EVAL-INNO consortium, national experts of the countries studied, experts from the European Commission, and experts from other interested SEE countries, as well as international organizations such as the World Bank. The RTDI institutional benchmarking activity was also conducted during the year. This was based on a methodology prepared by the project partner, Public Benefit Non-Profit Ltd. for the Development of Industry (IFKA) from Budapest, Hungary, as well as an external expert, and was refined by the project partners. This benchmarking activity aimed to compare, with the ultimate aim of improving, the innovation and research performance of the benchmarked organizations. In Bulgaria, the selected organization was the Institute of Electronics of the Bulgarian Academy of Sciences. Through a series of interviews, surveys and desk research, ARC Fund investigated the institute across three dimensions. These included the practices used to take societal needs on board, how the institute responds to these needs, and what impacts that this response has on society.



*The EVAL-INNO Evaluation Training Course,  
March 18th-22nd Sofia, Bulgaria*



## Benchmarking Report - Bulgaria

Academician Emil Djakov Institute of Electronics of  
the Bulgarian Academy of Sciences

October 2013



Jointly for our common future



This Benchmarking Report has been prepared by the Applied Research and Communications Fund ([www. http://www.arcfund.net](http://www.arcfund.net)) in partial fulfillment of its activities within the EVAL-INNO project. It has been undertaken under WP7 - 'Programme Evaluation and Benchmarking Exercises', Act. 7.4 - 'Implementing the benchmarking exercise in 6 countries'. More information about the EVAL-INNO project can be found on the project website at <http://www.eval-inno.eu>.

## EVAL-INNO Benchmarking Report - Bulgaria

### Regional Innovation Monitor Plus

Launched in 2010, the Regional Innovation Monitor (RIM) continues to be one of the flagship initiatives of DG Enterprise and Industry of the European Commission. It aims at supporting the sharing of intelligence on innovation policies across some 20 regions in 20 EU Member States. Building upon the experience and results from the first period from 2010-2012, the RIM Plus service strives to evolve towards providing practical guidance to regions on how to use the collected information, establish a network of regional experts with thematic specialization, and organize workshops that take into account the relevance and potential interest among regional innovation policy makers.

The core element of RIM Plus continues to be the online repository of regional innovation policy measures, policy documents, and organizations within the participating EU regions. On this basis, the project aims to further contribute to the development of more effective regional innovation policies, promote policy learning, and provide a unique

platform for sharing knowledge and know-how on major innovation policy trends.

In 2013, ARC Fund updated the profiles of the six Bulgarian planning regions, focusing on the latest changes and trends in the areas of economic development, research and innovation, institutional set-up and innovation policy governance. The profiles of featured regional organizations were complemented with some of the most recent innovation-related projects and support measures.

In order to allow for horizontal analysis, the elaboration of 30 standardized regional reports is foreseen on the basis of common methodological guidelines. In 2013, an in-depth regional report on the innovation potential of the North East region was produced, which outlined and analyzed the contemporary developments of regional innovation policy, taking into account the specific context of the region, as well as general trends at the national and EU level.

## METRIS

For a third consecutive year, ARC Fund participated as a full member in Monitoring European trends in Social Sciences and Humanities (METRIS), a network of correspondents gathering insights and benchmarking the development of social science and humanities (SSH) in Europe. METRIS is an initiative of the Directorate General for Research and Innovation of the European Commission, whose aim is to become an entry and reference point for the social sciences and humanities landscapes in Europe.

In line with the overarching goal of the network to ensure the collection, regular updating, and analysis of SSH information at national and European level, ARC Fund prepared a country report focusing on new SSH policy developments in Bulgaria, governance set-up and coordination, thematic priorities at the national level, research infrastructures, state and private sector funding sources and research

performance. The country report highlights the lack of national policy that is focused exclusively on SSH research in Bulgaria and that the national research system depends primarily on public funding, distributed at the national level. In the lack of an integrated strategic research framework, even organizations with the most relevant expertise and research capacity elaborate their research agendas independently of governmental priorities - most frequently, based on available donor funding. Considering this, the following thematic research areas seem most attractive: competitiveness, innovation, crime, education, employment, health, migration and inequality.

The report also concludes that the systematic use of evaluation methods for evaluating the impact or efficiency of public sector programs, policies or strategies is limited. No significant attempts have been identified at the government level to integrate evaluation in policy development.

## HR Management in Public Research Sector

In 2013, ARC Consulting, the commercial arm of ARC Fund, participated as a regional coordinator in the feasibility study for the development of a new certification mechanism for genuinely good HR management in the public research sector in Europe. Within its framework, interviews were carried out with diverse stakeholders in research performing and research funding organization in the following countries: Bulgaria, Greece, Romania, Slovenia, Albania, Bosnia & Herzegovina, FYR of Macedonia, Moldova, Montenegro and Serbia.

By collecting timely input by key stakeholders and developing a new certification mechanism, the European Commission strives to provide more attractive careers for researchers and thus reinforce the implementation of the Human Resources Strategy for Researchers. The round of interviews aimed at collecting country-specific evidence to support the following activities:

- Developing a certification process for good human resources manage-

ment in the public research sector;

- Designing architecture for the body/group of bodies that will carry out the certification;
- Developing scenarios for the practical setting up of the certification structure and the associated accreditation mechanism;
- Assessing the feasibility of the initiative, taking into account the existing national legislative frameworks and pointing out potential synergies with on-going EU and national policy initiatives.

The scheme will build on the experience gathered under the existing HR Strategy for Researchers/HR Excellence Award, and will be widely applicable, taking proper account of the different national contexts and legislative frameworks within which research organizations operate. Institutions that have successfully participated in the Human Resources Strategy for Researchers initiative should be well placed to obtain the quality label that will be awarded

through the new certification mechanism.

The publication of the final report summarizing the results from the EU-wide consultation is due at the beginning of 2014. An overall preliminary conclusion from the

conducted interviews is that R&D institutions in the aforementioned countries perceive challenges related to funding, infrastructure and human capital more pressing than improving HR management practices.

### *Open, Transparent, and Merit-Based Recruitment of Researchers*

ARC Consulting assumed the role of country correspondent within the framework of another EU-wide assessment activity related to the management of human resources in public research institutions. The overall objective of the project on open, transparent, and merit-based recruitment was to analyze the current de facto and legal situation with regards to recruitment processes and practices of researchers within all EU27 Member States. ARC Consulting conducted a round of structured interviews at ministry level, and within universities and public research organizations, in order to:

- Gather information necessary to evaluate the level of openness of the recruitment procedure;
- Identify possible good practices and barriers for open recruitment;
- Systematize the perceptions of the benefits of open recruitment;
- Outline current or planned policies at national level promoting open recruitment;
- Assess the costs of adapting existing and/or introducing new legislation on more open recruitment.

The summarized interview results revealed that stakeholders perceive unattractive remuneration levels and outdated research infrastructure as the major obstacles to attracting and retaining researchers of high merit. Furthermore, it was highlighted that the pool of potential Bulgarian and international applicants in particular is limited. Although individual faculties have exchange partnerships with foreign universities and research teams participate in various international projects, integrated internationalization policies are rarely laid down in official documents. It is widely believed that the recruitment mechanism currently in place produces satisfactory results and improvements, in terms of openness, are not necessary.

The collected empirical evidence on recruitment requirements and practices in Bulgaria will contribute to: identifying possible legislative approaches at EU level to ensure more open, transparent, and merit-based recruitment systems; carrying out a detailed cost-benefit analysis; and formulating policy recommendations for legislative and non-legislative actions.

# Technology Transfer and Business Support

KNOW-HUB



The KNOW-HUB project (full name “Enhancing Regional Competences in Strategic Management of Innovation Policies”) funded by the INTERREG IV program of the European Union, aims to grow and exchange the experiences of European regions in designing and implementing the next generation of smart and effective strategies for innovation. The project actively collaborates with the Smart Specialization Platform (S3) in their work on reviewing and improving their Smart Specialization Strategies for Research and Innovation (RIS3).

The KNOW-HUB project started in January 2012 and will conclude in December 2014. It involves 10 European sub-national regions that share good practices and collaboratively find solutions to common problems in helping to boost regional development by the identification and implementation of better policies.

In 2013, the KNOW-HUB practitioners were involved in a series of Mutual Learning



Mutual Learning Circles seminar

Circles seminars in order to discuss key issues on “S3 and Policies”, “Effective Instruments for Innovation Policies” and “Current Problem Identification and Solving”. The knowledge that was exchanged is being used in designing implementation plans that are customized for each region, and include specific measures to help in achieving smart specialization.

In all project activities, ARC Fund closely collaborates with the Municipality of Gabrovo, which is the Bulgarian region within the focus of the KNOW-HUB project. ARC Fund also supports the local initiative of the municipality to screen the economic performance of local companies in order to identify the key competitive advantages of the region. The KNOW-HUB project maintains a web portal that features:

- An encyclopedia of regional innovation strategies and instruments;
- A repository of good practices;
- A blog and newsletter on important activities related to the smart strategies and policy instruments in the EU;
- Short videos on regional innovation and a library of publications and reports specifically selected for readers.

The project will also deliver two practical guides with references to the knowledge and good practices identified in KNOW-HUB, as well as training sessions for public stakeholders to spread “win-win” collaborations beyond the project consortium.



Know-Hub website



ETNA Plus - European Transport Network Alliance



- Making Transport Sustainable;
- Making Transport and Transport Systems Seamless;
- Keeping European Transport Competitive through Research.

In 2013, the ETNA Plus consortium started working on their partner search facility for potential participants in calls for proposals, as well as on curriculum for training sessions for NCPs. A brokerage event for finding project partners in Transport-related calls of Horizon 2020 was organized within the EC Transport Infoday on December 18<sup>th</sup>, 2013 in Brussels. ARC Fund was responsible for the organization of Green Vehicle b2b session with the participation of more than 30 transport organizations throughout Europe. Complementary to the b2b sessions and awareness raising Infoday, a number of innovative transport companies will be enrolled for the ETNA Academy Trainings and webinars for building capacity in Horizon2020 project participation.

ETNA Plus started in January 2013 and aims at advancing innovation in the transport sector by fostering trans-national cooperation. It is funded by the Seventh Framework Program of the European Commission. The project networks the national contact points (NCPs) and supporting organizations in the area of transport across Europe in preparation for the coming Horizon2020 Program of the EU. ETNA Plus promotes the active participation of current and new actors and regions in the Horizon2020 transport research calls and projects under the following priorities:

The project website features relevant information in the field of transport, such as news, factsheets, newsletters, open calls, a partner search tool, and training materials.

Enterprise Europe Network – the Network for SME support

After 7 years in operation, the Enterprise Europe Network (EEN) has helped more than 3 million companies to make the most of the European Single Market. It has also attracted around 40,000 small businesses to international events and missions for business cooperation and technology transfer. Europe's largest business support network contributes to the competitiveness of SMEs by making it easier for them to internationalise, innovate and access EU funding. Close to 600 major players in the business support community have connected through the network in order to offer a one-stop service to help companies reach their full potential.

It provides support services designed to help SMEs do business abroad and to find European funding for their research and innovation projects. The network was created in 2008 by DG Enterprise & Industry and is a key part of the EU's Competitiveness and Innovation Framework Program (CIP), which aims to encourage competitiveness in European businesses. It is managed by the Executive Agency for Competitiveness & Innovation (EACI).

EEN-Bulgaria, being part of the network, helps the small businesses in the country internationalise, innovate and seize the opportunities of international markets.

With over 3,500 professionals participating, the network is present in 54 countries. This helps small companies seize the unparalleled business opportunities of the global

The network in Bulgaria consists of 14 partnering organizations in 8 cities, and covers the whole country. It is coordinated by ARC Fund.



Map of EEN-Bulgaria nodes

As in previous years, the focus of the network was to help the internationalisation of Bulgarian SMEs through 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 opportunities.

ARC Fund maintains the internet portal of the network in Bulgaria, which is the leading Bulgarian portal for business information and advice, technology transfer and innovation, and consultancy. It is also a repository of information on how to participate in national and European funding programs, especially in terms of technological development,

research and marketing of new products and technologies. Each partner maintains its own regional portal of the network.

During 2013, the activities of EEN – Bulgaria focused on the sectors of ICT, Food and Beverages, Mechatronics and Automation, Textiles and others. A special focus is put on collaboration with the business clusters in Bulgaria. As such, ARC Fund is member of the Cluster of Mechatronics and Automation and the Association of the Business Clusters in Bulgaria. It supported and promoted the 4<sup>th</sup> Balkan and Black Sea Conference Days of Clusters, held on 31 October – 1 November 2013 in Sofia, that gathered clusters from Bulgaria, Serbia, Macedonia, Turkey and other countries.



Screenshot of the EEN in Bulgaria

Brokerage events

Throughout the year, ARC Fund organised several business and technological brokerage and matchmaking events in various economic sectors. These included: 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.

Enterprise Europe Network - Bulgaria co-organized, with the Chamber of Commerce, Industry and Navigation of Valencia, a B2B Matchmaking event during ANUGA 2013, the world's leading food fair for retail trade, food service and catering. The B2B Matchmaking event took place in Cologne, Germany and was held on the 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> of October. The fair was attended by 363 participants from 28 countries, where 685 scheduled bilateral meetings were held. Some unscheduled meetings were also

organized on-site with the support of the EEN officers. ARC Fund organized the profile submission and on-site participation of 18 Bulgarian companies for the matchmaking event. Many were also taking part in the trade mission to the fair, led by the Bulgarian government's Agency for SME Promotion.

Following its good ties with the Bulgarian ICT industry, the EEN organised, along with its international EEN partners, several brokerage events in the framework of major international ICT fairs and conferences. These included the World Mobile Congress Barcelona (February 2013), CeBIT Hannover (March 2013), CeBIT Eurasia – Istanbul (October 2013), SIMO Madrid (October 2013), and EU ICT Days in Vilnius (November 2013). In total, the EEN team at ARC Fund supported 16 Bulgarian ICT SMEs to submit their partnership profiles and pre-arrange their b2b meetings. These added up to a total of 120 meetings for all 5 brokerage events.



B2B meetings at ANUGA, Cologne, 2013  
WMC Barcelona, CeBIT Hannover, CeBIT Eurasia, SIMO Madrid, ICT Days Vilnius

The Enterprise Europe Network, in cooperation with the Bulgarian Association of Electrical Engineering and Electronics (BASSEL) and the Chamber of Commerce and Industry – Plovdiv, organized a mission of German companies in the sector of swimming pools, water management, electrical engineering and sensors production, on the 29th and 30th August, 2013 in Plovdiv. The event aimed to provide an opportunity to establish new business contacts and partnerships between companies from Bulgaria and Germany in these sectors. Six German companies, led by tti-Magdeburg, an EEN partner, had the opportunity to interact with 56 representatives of 42 Bulgarian firms.. The companies identified matching interests (deployment, service, technical adaptation of the products for the Bulgarian customers) and committed themselves to get in contact with more concrete business proposals in the following weeks. Several Partnership Agreements were processed during the event. Major regional newspapers, TV, radio stations covered the business forum. A welcome address was given by the Mayor of Plovdiv. The business mission ended with group visit of one of the largest breweries in Bulgaria – “Kamenitza”, based in Plovdiv.

Apart from this, the EEN has organized an individual company mission in Sofia in January 2013, held for the German company ItN Nanovation AG and Bulgarian company EkoMaks Bio Ltd, as potential partners in the area of water filtration technologies.

In March, in cooperation with Inter Expo Center – Sofia and the Bulgarian Industrial Association, the EEN organized a B2B matchmaking and technology transfer event, entitled IndustryMatchMaking - IMM2013 within specialized international exhibitions in the area of metallurgy, automation & mechatronics, and transport.

The forum was an excellent opportunity for companies and organizations from Bulgaria, UK, Serbia and Turkey to establish valuable business contacts with local and foreign companies for business cooperation, technology transfer or participation in EU-funded projects for competitiveness and innovation. The bilateral meetings offered participants the possibility to make direct contacts with potential partners, to learn about the news and trends, to promote their business activities and to exchange experiences.

In its role as the coordinator of the national EEN consortium, ARC Fund continuously organized intra-consortium activities as well as information days and capacity-building seminars in the framework of the annual series of event “In Support of Entrepreneurship”. In 2013, the EEN team at ARC Fund became part of the EU IPR Helpdesk Ambassador Scheme – a network of regional reference points for intellectual property inquiries and advice in support of SMEs across the EU.



*German company mission in Plovdiv, co-organised by Enterprise Europe Network at ARC Fund*



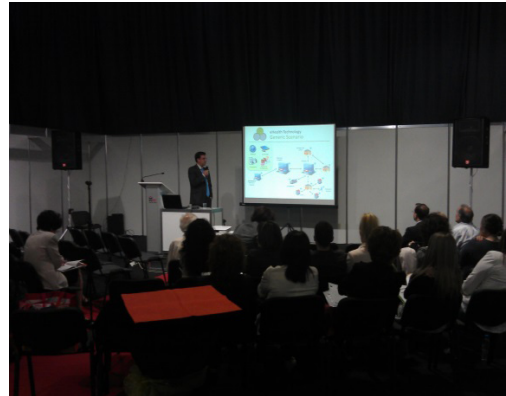
Left to right: Days of Clusters in Sofia, co-organised by Enterprise Europe Network at ARC Fund; training seminar from the series of events “Supporting Entrepreneurship 2013”, organized by EEN.



### ICT for AgeingWell

In 2013, the Applied Research and Communications Fund joined the 'ICT for AgeingWell' thematic network, funded by the Competitiveness and Innovation Program of the EU. The aim of the **AgeingWell** Network is to build and animate a European network focused on improving the quality of life of elderly people by promoting the market uptake of ICT solutions for the facilitation of the aging process. Europeans are living longer than ever, thanks to economic growth and advances in health care, and ICT for Ageing Well solutions are essential tools for improving the quality of life of the ageing population. Relevant initiatives are being developed at the European, national and regional level, but they are mostly working in isolation. The aim of the **AgeingWell** Network is, therefore, to create a community that brings together the key initiatives in the field of ICT for Ageing and thus to improve communication and cooperation between them. This should be done

with a view to better deploy such ICT for Ageing solutions, exchange good practices, and disseminate information to stakeholders across Europe. In accomplishing this, ARC Fund focused its activities on the promotion of the network and raising the awareness about the opportunities this niche area creates for the ICT industry. The kick-off event of the Network in Bulgaria was a training seminar entitled “e-Health - Opportunities for Financing of e-Services in Health” organized by ARC Fund, within the framework of the international exhibition of innovations in medicine BULMEDICA/ BULDENTAL at the Inter Expo Center in Sofia.



*Kick-off event of the AgeingWell thematic network in Bulgaria*

During the seminar, attended by representatives from Bulgarian Red Cross, National Health Insurance Fund, media and others, the consortium partners: Optimus Comunicas, S.A. (Portugal), Artica Telemedicina, S.L. (Spain) and Euroconsultants, S.A. (Greece,) talked about the experience of their countries in ICT services for ageing and the place of e-Health in EU in 2014-2020.

The Thematic Network took part also in the 12th European Conference of the Association for the Advancement of Assistive Technology in Europe in Vilamoura, Portugal. The panel prepared by the network's partners was "Future Policy Framework for ICT & Ageing" in which ARC Fund's team delivered approaches for the assessment of the socio-economic impact of ICT for ageing projects.

The Bulgarian Association of Information Technologies (BAIT) was engaged as a key associate member of the network, providing fora for communicating the prospective opportunities for development of the Bulgarian ICT industry in this rapidly emerging niche area.

On a regular basis, the team implementing this project contributes to the development and upload of the Knowledge Centre of the Network.

By the end of the project in 2015, it is foreseen that the consortium should:

- Develop Guidelines for deployment and sharing of good practices between key competence centers (Good Practices Handbook);
- Develop Guidelines Handbook which intends to be a working tool to support all ICT & Ageing stakeholders in their decisions to develop ICT for ageing solutions in different EU Member States;
- Develop an ICT for Ageing Knowledge Centre with the aim to share relevant information and results with the AgeingWell Community;
- Develop an ICT for Ageing Society Strategic Agenda, with the aim of providing a study on options for a future structure and implementation of EU innovation funding;
- Promote European innovation synergies between innovative ICT & Ageing enterprises (in particular SMEs) and the investment community;
- Raise awareness within the European community of ICT&Ageing stakeholders;
- Update with regular news on the ICT & Ageing sectors through the **AgeingWell** web portal, newsletters, and social networks (Twitter, LinkedIn).

The **AgeingWell** network is open to ICT providers, health services providers, clusters and networks, insurance companies, investors, entrepreneurs, regions and municipalities. Launched in 2012, the network has already more than 40 associate members from across the EU.

### ECAbit

ARC Fund coordinated the ECAbit Network of Business Incubators and Technology Parks for two mandates in the period from 2008-2012, in partnership with and support from World Bank's infoDev Program. One of ARC Fund's senior experts has been elected to sit at the new ECAbit Network board for the next period of the networks activities from 2013-2015.

Founded in May 2005 in Kiev, Ukraine, the network aims at strengthening the business and incubation and innovation ecosystems in Eastern Europe, Central Asia, (ECA) as well as the Middle East and North Africa. A major component of the conducted activities was the organization of numerous training events, and the provision of high value-added services to its members.

### EUWIN

The European Learning Network for Workplace Innovation (EUWIN) was established at the beginning of 2013, in order to help optimize the productivity and innovativeness of European organizations. The network aims to do this through the introduction of innovative practices in organizations regarding the management of their employees, the organization of their activities and their utilization of technology. Organizational change, in this context, is largely aimed at unlocking the latent potential and productivity within employees, improving their levels of professional satisfaction, and improving the communication channels and strategic knowledge of those in leadership positions.

EUWIN achieves its goals through the aggregation of practical cases, as well as academic knowledge, and communicates this information to organizational representatives. More practically, network representatives organize a series of workshops, undertake outreach activities via social media channels, and develop an online database of knowledge on workplace innovation.

First, stakeholders (i.e. practitioners, social partners, policymakers, and representatives of intermediary organizations) are brought together to identify specific challenges to improving the 21<sup>st</sup> century workplace, and offer examples of innovative practices. Following this, six regional workshops will be held in order to arrive at an understanding of the needs of each of the six target areas. These workshops aim to gather regional experts and thought leaders in order to develop and aggregate new approaches or modes of workplace

innovation. Finally, the action will conclude with two highly interactive workshops where participations will exchange good practices and knowledge in an international context. As mentioned, the action is organized around six regions. These include:

1. Denmark, Sweden, Germany, Finland and Norway;
2. France, Spain, Italy, Portugal and Belgium (fr.);
3. Austria, Hungary, Slovenia, Croatia, Czech Republic, and Slovakia;
4. Bulgaria, Romania, Greece, and the Former Yugoslav Republics;
5. UK, Ireland, Netherlands, and Belgium (fl).
6. Lithuania, Poland, Latvia, and Estonia.

For its part, ARC Consulting utilizes its longstanding coordination of the Enterprise Europe Network (EEN) in Bulgaria to help integrate the findings of the network activities into the 500+ organizations involved in the EEN. ARC Consulting's links with the EEN also allow the network's outputs to be directly communicated to businesses and allow for a two-way exchange, facilitating consultations between the network and the business community on the validity and practicability of the outputs of the project. The EUWIN was formally launched on 10 April 2013 in Brussels, at the European Parliament. Representatives of two companies from Bulgaria attended the event and made presentations on how they perceive and implement workplace innovation: DeConi and UniTech Control. The launch event brought together more than 100 business managers and policy makers to discuss the best ways to organize EUWIN and further make the case for advanced workplaces in Europe.

## BOO-Games

In 2013, progress on the 'Boosting European Games Industry' (BOO-Games) project built on the foundational activities conducted in 2012.

ARC Fund's main activities during the year focused on the development of an abridged version of a 472-page report entitled - 'BOO-Games Regional Analysis Report' - which was developed by the consortium partners and finalized at the beginning of 2013. Together with the University of the Arts in Utrecht (HKU), a member of the Boo-Games consortium, ARC Fund worked on the structure, design and development of the abridged summary report, which aims to present the research findings of the project in a more targeted way, facilitating the communication of the main conclusions of the study to all stakeholder groups. The summary report was finalized at the end of 2013.

During the year, the BOO-Games consortium organized three Thematic Seminars aimed at discussing and presenting information related to the stimulation of the digital games sector in Europe. Taking part in these events, ARC Fund could further develop its expertise in the field and strengthen its networks of EU organizations working on the promotion of the gaming sector in Europe.

These events included:

1. The "Supporting Games: Funding Opportunities and Communication Challenges" Thematic Seminar held in Stuttgart, Germany on April 25<sup>th</sup>.
2. The "Access to Finance for SMEs working in the creative industry" Thematic Seminar held on June 14<sup>th</sup> in Paris, France.
3. The "Access to markets and international collaborations for the video games industry" Thematic Seminar held on September 13<sup>th</sup> in the West Midlands, UK.

Apart from the projects' partners, the events were attended by local and European digital games experts and businesspeople, cluster managers, finance experts and policymakers from the project's target regions and from across the European Union. The final phase of the project includes the aggregation and elaboration of best practices to support the digital games sector. As Bulgaria is one of the two targets for the transfer of good practices (the other being Malta), ARC Fund has worked with the consortium to help ensure positive impacts from these activities. This has included providing guidance to the structure of the 'Good Practices Guide'. ARC Fund is being consulted on the format of an International Conference to take place in Malta in January 2014, in order to ensure its success.



*The BOO-Games Abridged Report*



*"Access to Finance for SMEs working in the creative industry" Thematic Seminar held in Paris, France. It was organized within the Digital World Festival FUTUR EN SEINE*



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# Safer Internet for Children

## *Safer Internet for Children and Youths*

In 2013, ARC Fund continued its coordination of the national Safer Internet Centre as a member of the European network of Safer Internet Centers (In-safe) and of the International Association of Internet Hotlines (INHOPE).

ARC Fund oversees a hotline for combating illegal and harmful content and conduct for children, called the Bulgarian Safer Internet Hotline. The hotline has received close to 1000 reports regarding, among others, child pornography, sexual solicitation of minors via the internet, harmful content easily accessible to children, and cyber-bullying between peers.

The hotline team has worked in close co-operation with a helpline, operated by the project partner Association Parents. The helpline consultants have responded to hundreds of queries from minors, parents and teachers concerning the online safety of children. In cases when they received a report about illegal content or conduct, the hotline team took the

necessary steps to remedy the situation. The collaborative work resulted in the prevention of several cases of attempted sexual abuse of children on the internet as well as assisting with advice in dozens of cases of cyber-bullying between minors. It also helped to address family problems connected to the use, by a child, of information and communication technologies.

ARC Fund's activities in the field of prevention of online crimes and bullying for children also aimed to raise the awareness of children, parents, teachers and professionals, and empower them to use the Internet and mobile communications in a more positive and safe way, including through:

- Trainings and campaigns;
- Research of the trends in the use of new technologies by children;
- Developing awareness and information materials and training methodologies;
- Stimulating co-operation among all stakeholders among the public institutions, industry and civil society.



*Safer Internet Centre's mascot Flashboy is playing with children in a themed treasure hunt game in Dobroslavtsi*

During the year, a series of trainings of teachers, pupils and professionals were conducted by the Safer Internet Centre team. Teachers from schools in the Nadezhda and Novi Iskar districts of Sofia were trained on how to use the methodology "Prevention of Virtual and Real Violence by Interactive Education at School". Trainings of teachers regarding online safety for children were held in the cities of Sliven, Varna, Rousse, Kozloduy and the town of Selanovtsi. Trainings of pupils were conducted in Varna, Dupnitsa, Dobroslavtsi and Sofia. At the annual meeting of secretaries of the local Commissions for Combating Anti-Social Acts by minors from the country, the activities of ARC Fund and training methodologies and possibilities were presented. From September, experts of ARC Fund took part in 5 trainings of officers from the juvenile crime departments from all over the country. A distance learning course on online safety, developed with the support of the Municipality of Varna, was upgraded and new group of school children were enrolled.

One of the most efficient ways to reach parents and their children was the organization and participation in various outdoor events at schools, children fairs and exhibitions in Sofia and around the country. In May, the traditional Familathlon outdoor

event for families was held in the South Park in Sofia. Together with more than 30 clubs, sports federations, and other organizations, many games, competitions and entertainment events for the whole family were organized. Through games and competitions, more than 2000 families were acquainted with the basic rules for the online safety of children, and the kids received prizes and presents together with awareness materials. Members of the Safer Internet Center team took part in the traditional 'Sofia Breathes' weekends, the Mobility Week, and children fairs in Sofia and Burgas.

For the Safer Internet Day on February 5<sup>th</sup>, ARC Fund organized a TeeNet Parliament. More than 100 pupils from Sofia and other cities gathered in the building of the national parliament to discuss and vote on a Charter of Online Rights of the Youth. ARC Fund assisted the Safer Internet Day celebrations around the country by preparing and sending awareness materials and lesson plans to more than 40 schools and libraries.

Owing to its active work in the field of protection of children online, ARC Fund was invited to sit on the board of the European project SIP BENCH. This project rates parental control tools, and was selected to be the national partner of the EU Kids Online European research network.



Young people participating in the TeeNET parliament for SID 2013

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# Foresight and Public Engagement in Research and Innovation

## SPRING

The year 2013 marked the official end of the SPRING project, whose objective to create and provide a solid basis for future EU-China collaboration in the field of environmental research, had been successfully accomplished by the end of February. ARC Fund's role in the implementation of SPRING was crucial since it was the partner providing the core methodology for the foresight activities.

The major deliverable, namely the *Roadmapping Report with Identified Research Priorities*, is the final result of the all foresight activities executed during the course of the project implementation. This included the key technologies workshop, followed by the key technologies online survey, the success scenario building workshop and the roadmapping workshop. The report was prepared by the Chinese Research Academy of Environmental Sciences on the basis of the content structure provided by ARC Fund. In addition, ARC Fund wrote the part of the report dedicated to the description of the foresight methodology applied in SPRING. The document consists of the following major parts:

- *Executive Summary*, presenting the objective and the structure of the roadmapping report;
- *Introduction*, encompassing the reasons for having such a roadmapping report, presenting in details the

- foresight methodology of SPRING and providing an overview of the context of the roadmap, including EU policies in research and innovation 2014-2020, the grand challenges, as well as existing research gaps;
- *Research Landscape and Various Resources to be Committed to the EU-China Collaboration*, including the relevant stakeholders, necessary human capital and research infrastructure and the needed financial resources;
  - *The Roadmaps – Setting Concrete Priorities for EU-China Environmental Research Collaboration*, presenting the roadmaps in the domains of biodiversity, climate change, water and atmosphere as well as the relevant policy measures and recommendations in each of these four fields;
  - *Implementation of the Roadmaps*, presenting the stakeholders involved in the roadmap validation process, as well as a thorough implementation plan for the uptake and execution of the roadmaps.

This major project deliverable was officially presented to a larger audience from DG Research and Innovation, and DG Environment, during the final workshop in Brussels in February 2013. Possibilities to continue this line of work in the environmental field, by implementing other EU-China research collaboration projects in the future, were discussed.

## EnVision2020

The need to improve resource efficiency is at the heart of the EU agenda. This is evidenced both by the energy and pollution targets set, as well as the Resource-Efficient Europe flagship initiative, within the Europe 2020 strategy. In many countries in South East Europe, the energy intensity of countries is among the highest in Europe. Since these countries are expected to economically converge with European averages over time, (GDP per capita) the correlative link between energy use and economic growth indicates that energy use in this region is likely to increase at above average rates.

The objective of the 'Energy Vision 2020 for South East European Cities' (EnVision2020) project is to support the development of a policy framework, and specific options for reducing energy use against a baseline in South East Europe, while maintaining or improving living conditions. While there are many levers across all economic sectors which could be pulled to reduce energy use and minimize greenhouse gasses, buildings have been identified as having particularly underexploited abatement and cost savings potential. In other areas such as transport, the stakes are also high, with growth in personal vehicles on the rise around the world.

ARC Fund is in charge of developing the foresight methodology of the EnVision2020 project, and training the partners to support to the local and regional authorities in the overall execution of the energy foresight exercise. In its role of a methodology provider for the foresight activities within the project, in 2013 ARC Fund implemented the following tasks:

- Preparation of a stakeholders' interview template, listing the questions used by all project partners for conducting interviews with energy stakeholders in their city/region;
- Preparation of a short info material on foresight;
- Development of a foresight guide;

- Development of a key technologies workshop methodology;
- Preparation of an online key technologies survey questionnaire.

Furthermore, ARC Fund organized training on the key technologies workshop methodology for all consortium partners. It was held at the premises of the organization on 16 July, 2013 and was followed by the Sofia Key Technologies workshop on 17 July, which was also hosted by ARC Fund. A total of 38 people participated in the workshop. They were representatives of various stakeholders groups such as universities, research organizations, utility companies, non-governmental organizations, the Municipality of Sofia as well as representatives of businesses in the field of energy efficiency. The event lasted one full day and the participants were divided into three working groups, each of which was moderated by an expert in the respective area, namely conventional energy, bio-energy and renewable energy. Under the guidance of the facilitators, the participants discussed the European and global technological trends in their energy field and identified the respective key technologies which have the potential to enhance the competitiveness and the quality of life in Sofia, and in the long run can contribute to the greening of the local economy.

Key energy technologies, in the context of EnVision2020, are new<sup>3</sup>, or considerably upgraded energy technologies (for the production of energy), which have a strong potential to enhance the competitiveness and the quality of life in a particular city/region, and in the long run can contribute to the greening of local and regional economies of the participating cities and regions.

These key technologies allow the participating cities and regions to develop their local energy resources and energy systems within a time-horizon of 20 years, while minimizing environmental impacts. Also, they should be meeting local and regional energy demand

<sup>3</sup> Technologies which are in their working prototype phase or have already had their first industrial application

in a sustainable way and should have the potential to be adopted on a wide scale. Such key technologies workshops were organized in all participating cities/regions. The key technologies identified during these events were used as an input to the online key technologies survey, whose concept was developed by ARC Fund. The survey consisted of two major parts. The first one targeted the European

technological developments and trends and was prepared by ARC Fund and the second one was dedicated to the local/regional technologies, identified by the participants in the key technologies workshops. The implementation of the foresight activities in 2014 will continue with the analysis of the survey data, followed by the conceptualization and organization of the EnVision2020 roadmapping activity.

## **PACITA**

In 2013 ARC Fund continued promoting technology assessment (TA) as a strategy in public policy and decision-making. The PACITA project, supported by the EU through its Seventh Framework Program, involves 15 partners from 13 European countries, and aims to strengthen TA capacity across Europe. It was officially featured by the European Commission as a good practice and a priority for the upcoming Horizon 2020 program, evidencing the importance of embedding TA into the democratic decision-making systems across the EU. It further emphasizes the importance of ARC Fund's efforts in being the primary advocate for more open, transparent and accountable policy making when it comes to issues of science, technology and innovation.

As a partner in PACITA, ARC Fund has been in a unique position to further strengthen its institutional capacity in technology assessment and integrate within a network of renowned TA organizations across Europe. In 2013, ARC Fund was involved in several capacity building opportunities in pursuit of its long-term objective of developing sound in-house TA expertise and knowledge-base. The particular events included:

- A three-day international practitioners' training in Sofia, Bulgaria in April 2013 for more than 30 EU technology assessment experts from all over Europe. The training focused on the topic of technology assessment methods and their application as part of larger technology assessment projects. Experienced practitioners from the leading TA-institutions in Europe presented

an overview of the rich (and growing) variety of available TA methods. Participants worked through actual case studies, based on a contentious TA topic, such as public health genomics and sustainable consumption, demonstrating the complex linkages between societal challenges, technology options, and policy solutions.

- A three-day practitioners' training in Vilnius, Lithuania in November 2013 discussing which stakeholders, experts, laypeople and decision-makers should be involved in TA and what their roles should be in order to deliver best quality results.

In addition to these capacity-building workshops, ARC Fund's team participated in the First European Conference on Technology Assessment which took place in Prague in March 2013. About 300 stakeholders engaged in science and policy studies across the globe attended the conference, such as policy makers in legislation and administration, civil society organizations as well as academics and TA practitioners. In addition to being a major opportunity for networking with international TA experts and practitioners, ARC Fund's team could take part in an open debate among stakeholders on topics, such as institutionalizing TA, TA and governance, future-oriented TA, participatory methods, and ethical aspects of TA, among others.

Following its strategic commitment to stimulate an environment of open and transparent policy making and to facilitate the communication between the decision

makers in the legislative process and the different policy stakeholders, including citizens, in 2013 ARC Fund initiated work on two TA pilot projects, which will put to practice some of the most common technology assessment methods within the next year.

The two projects represent a joint effort of the PACITA partners to: i) demonstrate technology assessment's potential in countries which have not yet institutionalized TA, and ii) gather information input to deliver to the EU-wide policy making in two fields of science and technology with great potential to impact people's lives in the years to come – telecare for healthy ageing and sustainable consumption. Each project will use a different TA method for delivering results. These are World Wide Views – a method for

simultaneous consulting a high number of citizens in particular topic in several countries, and scenario workshops. The conclusions of the consultations will have significance for both national and EU-level policy makers as the same consultations will be conducted in around 14 Member States.

ARC Fund is the premiere Bulgarian organization working to establish a formalized network of TA practitioners and think tanks, with an ambition to bring professional S&T discourses into public policy planning, design, and implementation. As part of an EU-wide network of TA institutes, and resting on decades of innovation and policy analysis experience, ARC Fund is uniquely positioned to provide TA opinions and analyses to policy planners and decision-makers.



*Sofia, Bulgaria – Participants in the training for TA practitioners; Photo: Tomas Michalek*



*Sofia, Bulgaria - Participants in the training for TA practitioners; Photo: Tomas Michalek*

## Engage2020

In the autumn of 2013, the “Engaging Society in Horizon 2020” (Engage2020) project was launched. As part of the project team, ARC Fund helps to promote and facilitate the use of policies, instruments, and praxis in the Horizon2020 Program for the engagement of society in research and innovation. The project makes a thorough overview of existing policies, structures, methods, approaches, tools and instruments to promote societal engagement. The Engage2020 consortium includes 6 organizations, which involve experts and practitioners in the fields of science, technology and innovation related issues. These experts have experience in applying

engagement methods on all level of governance (local, national, European and global).

ARC Fund's contribution to the project includes making an overview of existing praxis in Europe, and around the world, of societal engagement in research and innovation. This is done through a comprehensive literature review, as well as consultations with international experts via an online survey and personal interviews. The results of the screening and mapping of engagement methods are summarized and presented in an Action Catalogue which aims to prescribe relevant actions in the development of policies, programs, and projects.

Another major activity in the project, coordinated by ARC Fund, is the development and publication of policy briefs. These include summaries of relevant results of the Engage2020 project, and their linkages to the developments and timeframes of current policy processes in the field of research and innovation at the European and national level. Also, suggestions on ways to strengthen public engagement in policy formulation, program development, and project definition, will be included.

Participation in this project, along with the Danish Board of Technologies, the Karlsruhe Institute of Technologies (Germany), the University of Groningen (Netherlands), INVOLVE (UK) and DIALOGIK (Germany) is by itself a recognition of ARC Fund's knowledge, capacity, and dedication to public engagement in policy-making. The end-goal here is to achieve a more informed and democratically legitimate policy-making process in the areas of science, technology and innovation.

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**PART TWO**

**Management**



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# Institutional Development

The Applied Research and Communications Fund is registered in the Central Registry of not-for-profit public benefit organizations of the Ministry of Justice. Public benefit organizations are obliged by law to conform to a number of additional financial reporting rules and to submit annual activity reports. In 2006, ARC Fund established ARC Consulting – a wholly-owned consulting company, designed to better leverage the organization’s expertise. The company provides consultancy services in the field of innovation and ICT. It also develops and implements national and international projects under the EU Framework Programs, and the Cohesion and Structural funds.

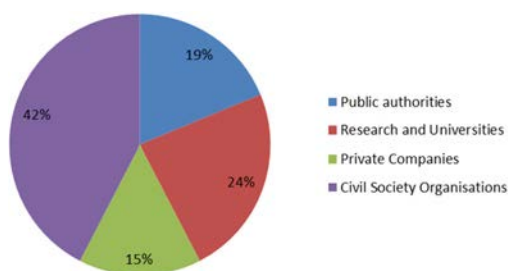
ARC Fund and ARC Consulting form the ARC Fund Group.

In 2013, ARC Fund employed a staff of thirty-three of whom twenty eight in professional and management positions, including part-time consultants, and five employees in administrative positions and technical support. The ARC Fund’s team is a mixture of young, well-educated and highly motivated people and experienced experts renowned for their professionalism and the high quality of their work.

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

- Execution of annual audits since 1992;
- Individual project audits;
- Publication of Annual Reports in Bulgarian and English, available on the ARC Fund’s website;
- Regular updates of the organization’s website to inform the broad public about ongoing projects and events;
- Publications in the media to enhance the impact of policy recommendations and increase public awareness of supported causes.

In 2013, ARC Fund and ARC Consulting worked on the implementation of 26 projects, funded by national bodies and international organizations. Among them were the European Commission (DG Research and Innovation, DG Regional and Urban Policy, DG Enterprise and Industry, and DG Communication Networks, Content and Technology); the Interreg IVC and the South-East Europe programs (EU Structural Funds); the Bulgarian Ministry of Economy and Energy, the Ministry of Regional Development and the Ministry of Transport, Information Technology and Communications, and the World Bank.



*Share of ARC Fund Group partners in 2013, by type of organization (n=224).*

ARC Fund Group also grew its partners’ network to a total of 224 organizations from across the globe, including civil society organizations (95), research organizations and universities (53), public authorities – local administrations and governmental bodies (42), and private companies such as SMEs (34). In 2013, involved in 26 active projects, ARC Fund Group had on average more than 8 partners in each project activity, attesting to its administrative and expert potential and development.

## List of Staff

### *Board of Trustees*

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

### *Staff Directory*

Nikolay Badinski, Executive Director  
Zoya Damianova, Program Director  
Angel Milev, Program Director  
Daniela Tchonkova, Program Coordinator  
Georgi Apostolov, Program Coordinator  
Dr. Todor Yalamov, Coordinator, IT group  
Ruslan Stefanov, Coordinator, *Innovation.bg* group  
Prof. Teodora Georgieva, Senior Fellow  
Dr. Todor Galev, Senior Fellow  
Denitsa Marinova, Project Coordinator  
Emilia Domoustchieva, Project Coordinator  
Lubomir Sirkov, Project Officer  
Metodi Naydenov, Project Officer  
Luiza Shahbazyan, Project Officer  
Robert Hickey, Project Officer  
Adriana Dimova, Project Officer  
Ventseslav Kozarev, Project Officer  
Blagovetsa Chonkova, Project Officer  
Stanislav Kushlev, Project Assistant  
Dimitar Stamenov, System Administrator  
Elena Velkova, Project Officer  
Daniela Mineva, Project Officer  
Plamen Shalafov, Project Officer  
Nadezhda Gancheva, Project Officer  
Miroslava Stoyanova, Technical Assistant  
Prof. Marin Petrov, Senior Consultant  
Prof. Milanka Slavova, Senior Consultant

### *Financial Department*

Tsvetoslava Kioseva, Financial Manager  
Daniela Zain, Accountant

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## **PART THREE**

# **Financial Report**



APPLIED RESEARCH AND COMMUNICATIONS FUND

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
31 DECEMBER 2013**

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**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 DECEMBER 2013**

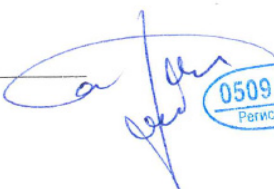
(all amounts in BGN thousand)	Note	31 December 2013	31 December 2012
<b>Assets</b>			
Property, plant and equipment	5	9	20
Investment property	6	132	232
<b>Total non-current assets</b>		<b>141</b>	<b>252</b>
Trade and other receivables	7	774	594
Cash and cash equivalents	8	1,503	1,436
Deferred expenses		161	91
<b>Total current assets</b>		<b>2,438</b>	<b>2,121</b>
<b>Total assets</b>		<b>2,579</b>	<b>2,373</b>
<b>Equity</b>			
Trade and other payables	9	119	31
Deferred financing	10	631	621
Taxes and other		1	1
<b>Total current liabilities</b>		<b>750</b>	<b>653</b>
<b>Total liabilities</b>		<b>750</b>	<b>653</b>
<b>Total equity and liabilities</b>		<b>2,579</b>	<b>2,373</b>

These consolidated financial statements were approved by the Board of Trustees on 28 June 2014. They are signed on behalf of the Board of Trustees by:

  
 Nickolay Badinski  
 Executive Director  
 28 June 2014



Initialled for identification purposes in reference to the audit report:

  
 Stoyan Donev  
 Registered Auditor  
 30 June 2014



**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
31 DECEMBER 2013**

For the year ending:


(all amounts in BGN thousand)	Note	31 December 2013	31 December 2012
Revenue	11	2,134	1,583
Cost of sales	12	(2,055)	(1,659)
<b>Gross profit/ (loss)</b>		<b>79</b>	<b>(76)</b>
Other operating income			-
Impairment losses			-
<b>Operating profit</b>		<b>79</b>	<b>(76)</b>
Financial income		42	53
Financial expenses		(22)	(11)
<b>Net financial income/(expense)</b>	13	<b>99</b>	<b>42</b>
<b>Profit/(Loss) before income tax</b>			<b>(34)</b>
Income tax expense	14	(5)	(3)
<b>Net profit/(loss) for the period</b>		<b>94</b>	<b>(37)</b>
<b>Other comprehensive income</b>			-
<b>Total comprehensive income for the year</b>		<b>94</b>	<b>(37)</b>


These consolidated financial statements were approved by the Board of Trustees on 28 June 2014. They are signed on behalf of the Board of Trustees by:

  
Nikolay Badinski  
Executive Director  
28 June 2014



Initialled for identification purposes in reference to the audit report:

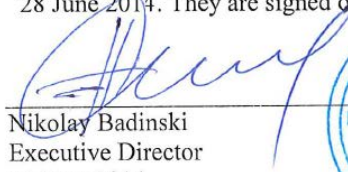
  
Stoyan Donev  
Registered Auditor  
30 June 2014



**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
31 DECEMBER 2013**

(all amounts in BGN thousand)	Note	Retained earnings
<b>Balance as at 1 January 2012</b>		<b>1,757</b>
Net loss for the year		(37)
<b>Balance as at 31 December 2012</b>		<b>1,720</b>
<b>Balance as at 1 January 2013</b>		<b>1,720</b>
Net profit for the year		94
Other - reclassification		30
<b>Balance as at 31 December 2013</b>		<b>1,829</b>

These consolidated financial statements were approved by the Board of Trustees on 28 June 2014. They are signed on behalf of the Board of Trustees by:

  
Nikolay Badinski  
Executive Director  
28 June 2014



Initialed for identification purposes in reference to the audit report:

\_\_\_\_\_  
Stoyan Donev  
Registered Auditor  
30 June 2014





**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED CASH FLOW STATEMENT  
31 DECEMBER 2013**

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2013	31 December 2012
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		99	(34)
Adjustments for:			
Depreciation and amortisation	5,6	16	55
Net interest income accrued		(42)	(46)
		<b>73</b>	<b>(25)</b>
Changes in working capital:			
Decrease of inventory			-
Decrease/(Increase) of trade and other receivables and deferred expenses		(280)	(261)
(Decrease)/Increase of trade and other payables		97	12
<b>Cash flow from operating activities</b>		<b>110</b>	<b>274</b>
Interest received		45	45
Income tax paid		(5)	(3)
<b>Net cash flows from operating activities</b>		<b>70</b>	<b>232</b>
<b>Cash flows from investment activities</b>			
Purchase of property, plant and equipment and intangible assets		(3)	(5)
<b>Net cash flows from investment activities</b>		<b>(3)</b>	<b>(5)</b>

**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
CONSOLIDATED CASH FLOW STATEMENT (continued)  
31 DECEMBER 2013**


(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2013	31 December 2012
<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>67</b>	<b>237</b>
Cash and cash equivalents at the beginning of the period		1,436	1,673
<b>Cash and cash equivalents at the end of the period</b>	9	<b>1,503</b>	<b>1,436</b>

These consolidated financial statements were approved by the Board of Trustees on 28 June 2014. They are signed on behalf of the Board of Trustees by:

  
 Nikolay Badinski  
 Executive Director  
 28 June 2014



Initialled for identification purposes in reference to the audit report:

  
 Stoyan Donev  
 Registered Auditor  
 30 June 2014



**APPLIED RESEARCH AND COMMUNICATIONS FUND (the GROUP)  
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
31 DECEMBER 2013  
(all amounts in BGN thousand, unless otherwise stated)**

## **1. Background and activities**

**Applied Research and Communications Fund** (ARC 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;
- To promote innovation 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 ARC Fund for the year ended 31 December 2013 comprise the Fund and its subsidiary ARC Consulting EOOD (together referred to as the "Group").

ARC 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 2013 the Group has 38 employees.

These consolidated financial statements have been approved by the Board of Trustees of the Fund on 28 June 2014.

## **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 2013 are not early adopted by the Group because management of the Group believes that they are nor 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 2013 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 commence from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

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

Buildings	100 years
Computers and equipment	3-6.67 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 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 2013.

### *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 2012 and 2013 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 2013</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	119	-	-	-
<b>As at 31 December 2012</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	31	-	-	-

**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

	Computers	Vehicles	Fixtures & Fittings	Total
<b>Cost</b>				
As at 1 January 2012	108	148	24	280
Additions	-	-	-	-
Disposals	-	-	-	-
<b>As at 31 December 2012</b>	<b>108</b>	<b>148</b>	<b>24</b>	<b>280</b>
				-
Additions	3	-	-	3
Disposals	-	-	-	-
Others (reclassification)	-	-	-	-
<b>As at 31 December 2013</b>	<b>111</b>	<b>148</b>	<b>24</b>	<b>283</b>
				-
<b>Depreciation</b>				
As at 1 January 2012	(100)	(139)	(139)	(260)
Depreciation charge	-	-	-	-
Disposals	-	-	-	-
<b>As at 31 December 2012</b>	<b>(100)</b>	<b>(139)</b>	<b>(21)</b>	<b>(260)</b>
				0
Depreciation charge	(5)	(9)	-	(14)
Disposals	-	-	-	-
<b>As at 31 December 2013</b>	<b>(105)</b>	<b>(148)</b>	<b>(21)</b>	<b>(274)</b>

**Carrying amount**

<b>As at 1 January 2012</b>	<b>8</b>	<b>9</b>	<b>3</b>	<b>20</b>
<b>As at 31 December 2012</b>	<b>8</b>	<b>9</b>	<b>3</b>	<b>20</b>
<b>As at 31 December 2013</b>	<b>6</b>	<b>-</b>	<b>3</b>	<b>9</b>

**6. Investment property**

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>As at 1 January</b>		
Carrying amount at the beginning of the year	232	244
Disposals carrying amount	(98)	
Depreciation charge	(2)	(12)
<b>Net book value at the end of the year</b>	<b>132</b>	<b>232</b>
<b>31 December</b>		
Cost	174	303
Accumulated depreciation	(42)	(71)
<b>Net book value</b>	<b>132</b>	<b>232</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>2013</b>	<b>2012</b>
Trade receivable and receivables on projects financing	741	580
Less: Impairment provision of trade payables	(13)	-
<b>Trade receivables, net</b>	<b>728</b>	<b>580</b>
Prepaid corporate tax	-	-
VAT Refund	-	-
Other	46	14
	<b>774</b>	<b>594</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>2013</b>	<b>2012</b>
Cash at hand	38	53
Cash in bank current accounts	1,465	1,383
	<b>1,503</b>	<b>1,436</b>

**9. Trade and other payables**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
Salaries and social securities payables	3	-
Tax	2	-
Other	114	31
	<b>119</b>	<b>31</b>

**10. Deferred financing**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
EC - Citizen Visions for the Future of Science Technology and Innovation		88
EC - Engaging Society in <i>Horizon 2020</i>	70	
EC - Enterprise Europe Network (EEN)	170	349
EC - European Transport Network Alliance	11	45
EC - Network for the Market uptake of ICT for Ageing Well	13	
EC - Safer Internet Centre with Hotline and Helpline	60	27
OAK Foundation - Children in Virtual and Real Violence – Prevention by Discourse and Education	78	51
WB - Strengthen the Capacity of Business Incubators based in the ECA and MENA Regions to Support their Clients SMEs		57
EC - Other	3	
ARC-Consulting - EC - Enterprise Europe Network (EEN)	226	
<b>Total deferred financing, related to projects</b>	<b>631</b>	<b>617</b>
<b>Financing for acquisition of fixed assets</b>		<b>4</b>
	<b>631</b>	<b>621</b>

## 11. Revenue

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

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
OAK Foundation - Empowering Fathers, Empowering Children	74	
EC - Scoping China's Environmental Research Excellence and Major Infrastructure: Foresight, Potentials, and Roadmaps	116	
City Municipality Varna - Responsible Internet Use and Prevention of Human Trafficking	5	
EC - Fostering Evaluation Competencies in Research, Technology and Innovation in the SEE Region	205	
EC - Parliaments and Civil Society in Technology Assessment	142	58
EC - Boosting European Games Industry	50	
EC - Enhancing Regional Competences in Strategic Management of Innovation Policies	79	
EC - Complex, Challenges, Innovative Cities	67	
The World Bank - Strengthen the Capacity of Business Incubators Based in the ECA and MENA Regions to Support their Clients SMEs	111	202
EC - Bulgarian Safer Internet Centre: Developing into an Education, Support and Knowledge centre of excellence	395	
EC - European Transport Network Alliance	34	
EC - Enterprise Europe Network	30	102
EC - Energy Vision 2020 for South East European Cities	97	
EC - Safeguarding Teenage Intimate Relationships: Online and Offline	23	
EC - Network for the Market Uptake of ICT for Ageing Well	14	
CEDR - Raising Awareness of Online Risks and Promoting Science 2 Subjects (Physics, Chemistry, Mathematics) among Children and Youth	2	
EC - Engaging Society in Horizon 2020	5	
EC - Setting Up Combined Safer Internet Node in Bulgaria (Phase 3)		149
EC - Safer Internet Centre with Hotline and Helpline		200

OAK Foundation - Children in Virtual and Real Violence – Prevention by Discourse and Education		80
EC – Inter-regional Cooperation Mechanisms for the Exploitation of the R&D Potential in South Eastern Europe		90
Other projects		271
		<hr/>
<b>Revenue from projects financing</b>	<b>1,449</b>	<b>1,152</b>
Revenue from services	536	426
Donation Novartis	16	-
Other revenue	18	-
Revenue from financing of fixed assets acquisition	4	5
Revenue from sale of fixed assets	111	-
	<hr/>	<hr/>
<b>Total revenue</b>	<b>2,134</b>	<b>1,583</b>

## 12. Cost of sales

Cost of sales for the Group include:

	<b>2013</b>	<b>2012</b>
Expenses for materials and consumables	11	10
External services expenses	772	797
Depreciation and amortization	16	55
Salaries and social securities	619	483
Other expenses	539	288
	<hr/>	<hr/>
	<b>2,055</b>	<b>1,659</b>



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

	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Interest income	39	46
Foreign exchange gains	3	-
<b>Total Finance income</b>	<b>42</b>	<b>46</b>
Interest expense		
Foreign exchange gains/(losses), net	(4)	(1)
Other financial expenses	(18)	(3)
<b>Finance costs, net</b>	<b>(22)</b>	<b>(4)</b>
<b>Net financial income / (costs)</b>	<b>20</b>	<b>42</b>

**14. Income tax expense**

The major components of income tax expense for the year ended 31 December 2013 and the period ended 31 December 2012 are:

	<u><b>2013</b></u>	<u><b>2012</b></u>
Current tax	(5)	(3)
Deferred tax	-	-
<b>Income tax expense</b>	<u><b>(5)</b></u>	<u><b>(3)</b></u>

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

There are no tax checks performed in the recent years.

**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 have occurred:

Related party	Transactions	January-December		31 December		31 December	
		2013	2012	2013	2012	2013	2012
		Transactions		Receivables		Payables	
Project 1	Consultancy services			150	150		
	Rental Agreement	45	45	-	-	-	-
Vitosha Research	Contract for development of research projects	28	-	-	-	-	-
		<b>73</b>	<b>45</b>	<b>150</b>	<b>150</b>	<b>-</b>	<b>-</b>

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

The Group is a related party with its executive director 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:

	<b>2013</b>	<b>2012</b>
Board of Trustees	240	179

### **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.

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of ARC Fund

### **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 2012 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.

## 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 2013, 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.

Stoyan Donev  
Registered Auditor  
Sofia

30 June 2014


0509 Стоян  
Донев  
Регистриран одитор