



2020 ANNUAL REPORT



# Table of Contents

<b>Mission Statement</b>	<b>4</b>
<b>Foreword: ARC Fund in 1991-1998</b>	<b>5</b>
<b>Efforts to Advance the Information Society in Southeastern Europe</b>	<b>7</b>
Wide Area Network in the Southern Tier of Eastern Europe	7
Internet Services to Bulgarian NGOs	9
Internet Training Program	9
Regional Information Society Forum	13
Bulgaria Online: A Public Information Service on the Web	16
<b>Freedom of Expression Focus</b>	<b>17</b>
Online Forum: Bulgarian Media Watch Society	17
International Conference “Institutional Guarantees for Freedom of Expression”	19
Global Internet Liberty Campaign (GILC)	21
<b>Information Brokerage in Innovation and Technology Transfer</b>	<b>23</b>
FEMIRC Bulgaria - Fellow Member to the European Community Network of Innovation Relay Centers	23
Information and Consultancy Services	24
Technology Auditing and Technology Transfer	25
<b><i>Coalition 2000: a Public-Private Partnership in Combating Corruption in Bulgaria</i></b>	<b>28</b>
<b>Staff Members</b>	<b>31</b>
<b>Board of Trustees</b>	<b>31</b>
<b>Advisory Committee</b>	<b>31</b>
<b>Partners and Supporters</b>	<b>32</b>
<b>Financial Review of 1998</b>	<b>33</b>

# Mission Statement

The Applied Research and Communications Fund, ARC Fund, is a private not-for-profit organization founded in 1991 in Sofia. Its **mission** is:

- to facilitate cross-border networking of non-governmental organizations (NGOs) by utilizing modern information and communication technologies;
- to contribute to a concerted development of the information society in Southeast Europe;
- to encourage the competitiveness and growth of economies in the region through innovation and transfer of advanced technologies and know-how.

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

## Foreword: ARC Fund in 1991-1998

ARC Fund was established in July 1991 as the first wave of non-governmental organizations (NGOs) appeared in the aftermath of the 1989 political changes in Bulgarian society. From the very beginning the organization defined its scope of activity in very specific terms: to conduct research, advocacy and training in the field of electronic media and telecommunications. Originally, the main objectives were (i) to assist the formulation of a modern institutional environment for broadcasting and telecommunications in Bulgaria, (ii) to generate public awareness and support for the process of liberalization of the country's telecommunications sector and electronic media, and (iii) to enhance the professional expertise of Bulgarian public officials, policy- and decision-makers in the field. Later, ARC Fund's activities were refocused to reflect the advent of a global information society resulting from the convergence of media, computers and telecommunications.

The evolution of ARC Fund has gone through two stages since 1991. The initial period, which extended to the end of 1994, was a time during which the organization sought to establish its identity, and define its long-term priorities and objectives. A catalyst role in this process was played by the Center for International Private Enterprise (CIPE) in Washington D.C., which provided valuable start-up support. One of the landmark events during this period was the second annual symposium on *Communications Diversity in Eastern Europe* held in Sofia in November 1991. It was organized jointly with the Center for Strategic and International Studies (CSIS) in Washington, D.C., and brought together over 100 participants from the International Media Fund, the U.S. Federal Communications Commission (FCC) and National Telecommunications and Information Administration, CNN, AT&T, Sprint, U.S. West, Comsat, as well as representatives of private businesses, academia and PTT administrations in each of the East European countries. Participants in the symposium were addressed by the then Bulgarian President and the Prime Minister. Two years later this forum was followed by a second international conference on *Economic Reform and Communications Diversity in Eastern Europe*. The key players in the telecoms and broadcasting industries of Bulgaria, Poland, Slovenia, Romania, Macedonia, Serbia, the U.S., Germany, the UK and France once again gathered in Sofia.

By the end of 1994, ARC Fund had already successfully completed two research and advocacy projects - *Economic Reform and Communications Diversity in Bulgaria: the Private Sector in Broadcasting and Telecommunications*, which was launched in September 1992, and *Institutional Reform and Communications Diversity in Bulgaria*, following a year later. A wide range of activities were implemented within this framework. A series of round tables and expert discussions resulted in regulatory recommendations to improve draft Regulations for licensing of telecoms operators and type approval of terminal telecommunications equipment, which were submitted to the Committee of Posts and Telecommunications (CPT). A number of training events were organized on topics ranging from *Management and Marketing of Private Radio Stations*, held in Sofia jointly by ARC Fund, the International Media Fund and the National Association of Broadcasters (NAB) of the U.S., to a *Hypothetical Seminar on Government and Broadcasting*, with the Trans-Atlantic Dialogue on Broadcasting and the Information Society. In collaboration with its international partners, ARC Fund also organized training courses and study visits for Bulgarian government and industry officials in Western Europe and the U.S.

In the period since 1995, ARC Fund has managed to diversify both thematically and geographically - by developing new objectives and expertise in the field of information society, Internet and multimedia technology, and by establishing new partnerships, particularly within the European Union. The systematic efforts to promote awareness and use of information technology in different areas of social and economic life have found concrete expression in a number of initiatives, such as the development of a Wide Area Network (WAN) for NGOs in Southeastern Europe.

Over the past two years, ARC Fund has maintained an NGOs Internet site where local and regional organizations can host their web pages, post information about events and initiatives, and exchange views and resources online. The Internet is also being used as a tool to facilitate the freedom of expression debate in Bulgarian society, and promote a closer collaboration between Bulgaria and EU member states in the field of innovation and technology transfer.

A modern communications facility—the Network Management Center—has been established at ARC Fund’s premises in Sofia, equipped with a high capacity Internet link and web design capabilities. This center is the technical base on which ARC Fund develops its public Internet service, called *Bulgaria Online*. Since the launch in early 1997, it has become the country’s leading provider of Internet content.

Internet training has also occupied a prominent place in ARC Fund’s activities. Training events have taken place in major administrative, industrial and academic centers across the country. The goal is to spread IT knowledge and skills to a wide spectrum of participant groups: NGOs, businesses, public administration and libraries.

In a broader regional context, ARC Fund has strengthened its role as a catalyst for the advancement of information society in Southeastern Europe, particularly through its involvement in the organization of the *Regional Information Society Forum*, held in Sofia in September 1998. The Forum was one of the most successful attempts to bring together governments, businesses and NGOs from around the region to discuss common solutions to the challenges of the information revolution.

Through these and many other activities implemented since 1991, ARC Fund has built a considerable pool of expertise and human resources, which will allow the organization to grow and develop successfully in the years to come.

# Efforts to Advance the Information Society in Southeastern Europe

## Wide Area Network in the Southern Tier of Eastern Europe

This initiative to develop a **Wide Area Network** for the civil society in Southeastern Europe began in September 1997 with the financial support of the European Union Phare Partnership Program. It was the result of cooperative efforts of an international consortium, including the Albanian Center for Economic Research (ACER) in Tirana, the Center for Political Research (CPR) in Athens, the Südost-Institut in Munich, and ARC Fund in Sofia. ARC Fund became the first Bulgarian organization to be granted a coordinating role in a Phare Partnership project.

The project entailed the creation of a virtual network of non-profit organizations, educational institutions, research centers and business associations from Bulgaria, Greece and Albania. The underlying idea was to use Internet technology in order to facilitate cross-border cooperation and information exchanges among the structures of civil society in the Balkan countries.

At the core of this virtual network is a World Wide Web (WWW) facility, called **NGOs Online**. It was conceived as an Internet gateway to the community of non-profit and grass-roots organizations in the region. The web site contains a host of useful information resources for NGOs arranged in the following pattern:

### **NGO Database**

Up-to-date information about Bulgarian NGOs which helps locate organizations and identify prospective partners in the country. The number of entries in this Database is growing constantly. It now includes over 400 organizations. The Oracle software on which the Database operates allows sophisticated search options by keyword, location, target groups, sources of funding or type of activity.

### **NGO Forum**

Access to newsletters and other NGO publications online.

### **NGOs by Country**

Listing of NGOs in Albania, Bulgaria and Greece with links to their own web sites.

### **NGO Support**

Links to pertinent Internet resources, including the web sites of international donor organizations with details on their programs, funding opportunities, and application guidelines.

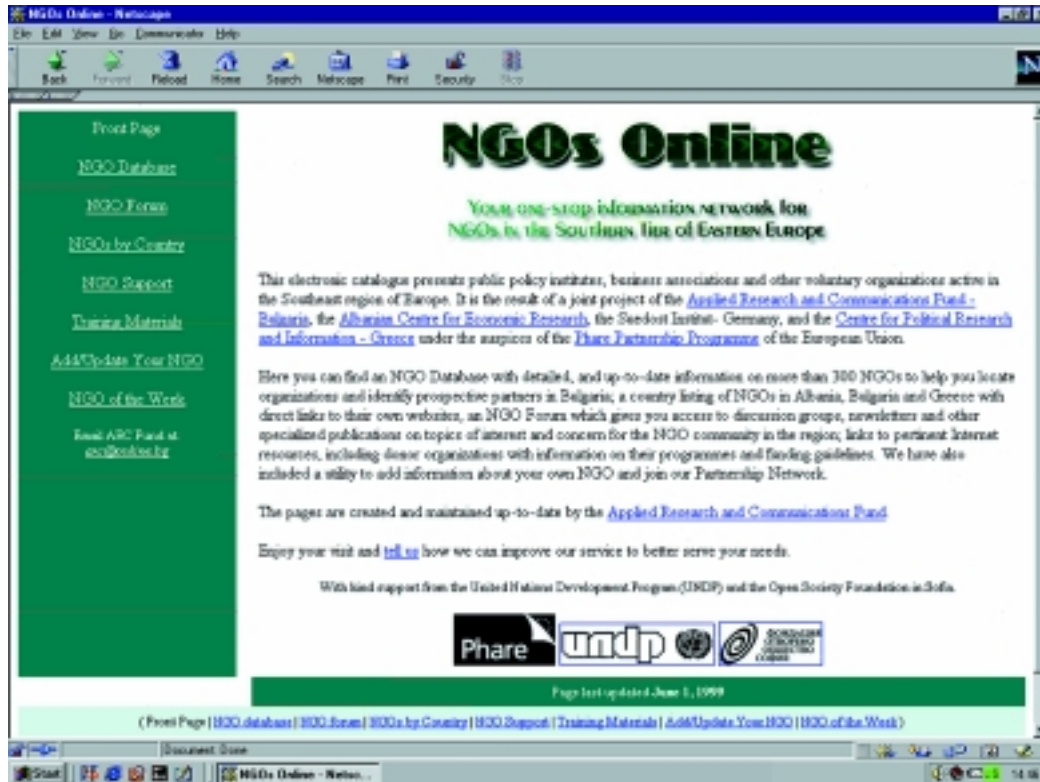
### **Training Materials**

Training brochures and other instruction materials on the use of Internet-related technologies in a non-profit setting. Specialized Internet training brochures are available here in PDF format. Presentation slides can also be downloaded to assist interested NGOs, individuals and organizations in designing and implementing their own Internet training activities.

### **Add/Update Your NGO**

A utility for NGOs to add and update information electronically.

The information on this site was collected by representatives of the partner organizations who acted as an international editorial board. The site is accessible on the Internet under [www.arc.online.bg/ngos/](http://www.arc.online.bg/ngos/)



At a time when full Internet access is not yet available to Albania's civil society, this project has provided a useful public service to Albanian NGOs, giving them the opportunity to construct and host their web pages on the ARC Fund server in Sofia. In this way, a number of Albanian organizations could increase their international visibility by establishing a presence on the Internet in 1998. These included the Albanian Center for Economic Research, the Albanian Center for Migration Studies, the Albanian Economic Financial Business, the Centre for Economic and Social Studies, the Institute of International and Strategic Studies, the Institute of Management and Public Administration, the Professional and Business Women Association, and the Research Center for Rural Development. Web design and hosting services were also provided to Bulgarian NGOs, including the Access Association, the National Centre of Environment and Sustainable Development, the *Coalition 2000* anti-corruption initiative, the Bulgarian Association Against Copyright Theft (BulAct), and the Bulgarian Football Union.

## Internet Services to Bulgarian NGOs

Under a different framework, jointly with the United Nations Development Program (UNDP) and the Open Society Foundation - Sofia, ARC Fund provides Internet connectivity to non-profit organizations in Bulgaria. This collaborative project was launched in June 1997 and its primary objective is capacity-building of NGOs - to enhance their competency, capability, profile and influence as agents of change in Bulgarian society. The project is also targeted at other organizations, outside the NGO community, which have a common interest in promoting reforms and sustainable economic development in the country, such as government departments and agencies, academic and research institutions, private sector interests and the media.

In 1998, **Internet access and services** were provided to a total of 125 organizations nominated and approved by the project Tripartite Committee - a representative body of the partner organizations established to provide overall coordination and guidance to joint activities. The communications facility established at ARC Fund was upgraded to improve the quality of Internet service. The Network Management Center was supplied with a high-capacity dedicated Internet line.

On a different level, the project also establishes local databases with national information related to the thematic interests of the target groups, as well as 'mirror' web sites of relevant international organizations. This is expected to mitigate the effects of Internet costs which remain relatively high in Bulgaria compared with those in the U.S. or Western Europe.

## Internet Training Program

In addition to the provision of Internet services, ARC Fund also aims to assist the human resource development of local NGOs and other organizations by creating skills and expertise for using modern information technologies. This is done with a view to empowering the organizations to contribute more effectively to the process of transition to a democratic society and market economy in Bulgaria.

Recognizing the growing importance of IT knowledge and capabilities in all spheres of social and economic life, ARC Fund implemented **a country-wide Internet training campaign** in 1998. A total of 22 Internet training seminars attracted 453 participants from the non-governmental sector, business circles, public administration, educational institutions and libraries. The training series provided an extensive geographical coverage of the country and included all major cities, industrial and university centers. The events were sponsored through the European Union Phare Program.

One-day training seminars were organized with the goal of spreading Internet knowledge throughout Bulgaria's civil society and promoting the idea of NGOs networking mediated by information and communications technologies.

All events followed the same program which included a mix of theoretical presentations and online demonstrations on how the Internet can be used to support the activities and goals of organizations. The following topics were covered: an overview of basic Internet features like electronic mail, the World Wide Web, file transfer and discussion groups; suggestions on how these tools could be used to facilitate communication between the organizations; as well as information on how to discover subject-related Internet resources.

For the purposes of this training effort ARC Fund developed its own training tools and instruction materials. Two training brochures were published and provided to seminar participants: "Internet for PCs" by Mr. Ivan Madjarov, professor at the Sofia Technical University, and "Internet for Non-profit Organizations: Basic Concepts and Practical Skills" by Mr. Orlin Kouzov, Coordinator of the Internet Program at OSF. The training materials are available in electronic format at the *NGOs Online* web site ([www.arc.online.bg/ngos/](http://www.arc.online.bg/ngos/)).

In the second half of 1998, ARC Fund adopted a customized approach to its Internet training activities. The feedback received from earlier seminars suggested that a more focused effort was necessary to address the diverse thematic interests of different social groups. To this end, ARC Fund developed tailored programs to reflect the professional backgrounds and specific training needs of different target groups. Three seminars were organized in the period June-November which focused on Internet applications and telematic services for libraries, public administration, and small and medium-sized businesses.

### ***Internet-related Technologies for Public Administrations***

- Internet basics: Internet tools for public management and administration
- Internet applications improving efficiency, increasing transparency, enhancing public dialogue and citizens' involvement in regional policy development
- Showcases of European "Digital" Cities: Antwerp, Berlin, Bologna, Manchester, London borough of Lewisham
- New opportunities for municipalities in Central and Eastern Europe: participation in Phare Partnership Program and Ecos-Ouverture.

Representatives from Sofia's regional administration offices learned how to use Internet technology to improve the quality of public service to the benefit of citizens.

### ***Internet and Telematics for Libraries***

- Digital library technologies: modes of access; electronic publishing tools and techniques; fiber optic technologies;
- Internet—the modern digital library: Internet services; information retrieval systems, the information society and the future of Internet;
- Internet demonstrators: WWW browsers, search engines, FTP; online access to digital libraries, catalogues and databases.

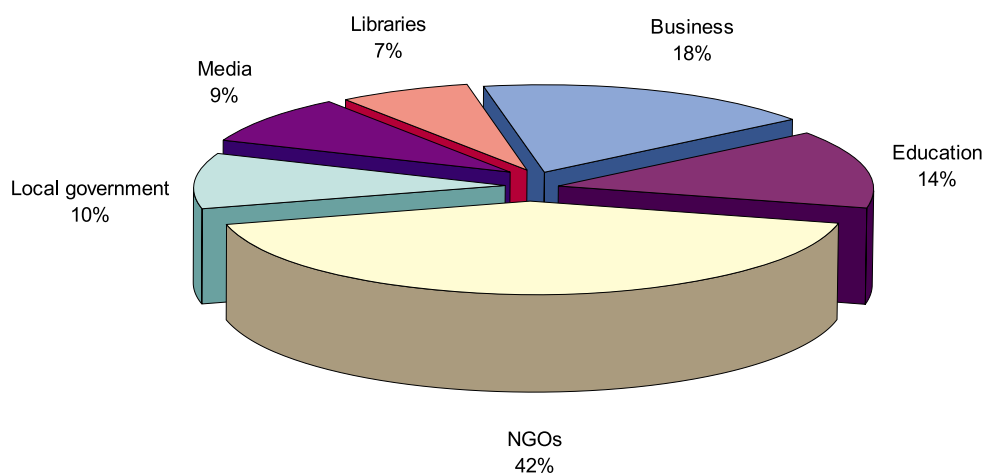
Trainees were librarians and information officers from the main libraries in Varna: the Medical University, Technical University, Military Navy Academy and the city's public library.

## ***Internet Applications for Business***

- Advanced communication technologies:  
an overview of recent developments
- Marketing applications of the Internet
- Using Internet in Human Resource Management
- Setting up your virtual “shop”
- The Internet market in Bulgaria
- E-commerce

This seminar was targeted at a small group of private entrepreneurs and representatives of business associations from the city of Plovdiv.

**Internet Trainees: Breakdown by Area of Activity**



In November, ARC Fund also developed a **Training of Trainers (TOT) program**. The TOT seminar took place at the Sofia Technical University which provided a fully equipped training lab with networked computers and Internet facilities. The purpose of the seminar was to instruct a group of NGO specialists on how to train others.

The TOT module was developed as an introduction to the Internet technology and incorporated theoretical sessions and hands-on exercises. Participants learned how to install Internet hardware and software, how to select an Internet Service Provider, how to use web search engines and “push” technology, how to develop attractive and informative WWW pages, and how to use databases on the web. The trainees were then guided through the stages of developing their own training programs.

The group included NGO managers and computer and information specialists from the Access Association, Bulgarian Association for Regional Development, Association of Journalists for the EU, National Library *SS Cyril and Methodius*, Bulgarian Association for Partnership, Bulgarian Entrepreneur’s Foundation, Bulgarian Institute for Legal Development, Business Innovation Center IZOT, Center for Economic Development, Center for Social Practices, Club *Economika 2000*, *Evrika* Foundation, Foundation for Local Government Reform, Heart and Health Foundation, Union of the Bulgarian Foundations and Associations.

Apart from local NGOs, the seminar was also attended by representatives from the Albanian Public Management Association, Albanian Foundation for Civil Society, and Albanian Center for Economic Research in Tirana. A guest lecturer was invited from Germany—Dr. Klaus Rodenberg of the Internet Business Development Consulting in Bonn.



## Regional Information Society Forum

The **Regional Information Society Forum** was a major international event held in Sofia on September 25-26. It was a joint initiative of ARC Fund, the Greek Innovation Relay Center Help-Forward, the Bulgarian Committee of Posts and Telecommunications, and the Information Society Coordinating Council of the Bulgarian government.

The Forum brought together policy- and decision-makers, senior government officials, and representatives of national and private telecom companies, academia and non-governmental organizations from most countries in the region: Bulgaria, Greece, Romania, Yugoslavia, Albania and the Republic of Macedonia. Also present were representatives of the European Commission, the United States Information Agency, the European Union Process for Stability and Good Neighborliness in Southeastern Europe (the Royaumont Process), and United Nations Development Program.

Governments in the region demonstrated a firm political commitment to advancing the information society in Southeastern Europe through cooperative regional programs. Opening addresses were presented by Bulgaria's Deputy Prime Minister and Minister of Industry, Mr. Alexander Bozhkov, and the Minister of Public Administration, Mr. Mario Tagarinski. The Greek government strategy concerning the information society was presented by Dr. George Papaconstantinou, Advisor on Information Society issues to the Greek Prime Minister. The President of the Bulgarian Committee of Posts and Telecommunications, Mr. Antoni Slavinski, presented Bulgaria's program for developing a favorable legislative framework and modern telecommunications infrastructure to enable the rapid deployment of information technologies to the benefit of all Bulgarian citizens.

The other keynote speakers included prominent public figures, business representatives, academics and IT experts from Europe and the U.S. Mr. Jonathan Spalter, Associate Director of the United States Information Agency, emphasized the importance of high-level government and private sector leaders from Southeastern Europe having assembled, for the first time ever, to discuss the social transformations resulting from the information revolution. He expressed the view that Southeastern Europe has a special role to play in the process of developing a Global Information Infrastructure, not least because "two and a half millennia ago, it gave birth to a notion of civilization and culture, and democratic ideals, that are now culminating in an enlightened, global information society."

The Royaumont Process for Stability and Good Neighborliness in Southeastern Europe was presented by Mr. Haris Lalacos, Diplomatic Advisor to the EU Coordinator, as a possible platform for regional cooperation initiatives in the field of information society.

Mr. Ulrich Boes, representative of the European Commission Directorate General III, focused on the EU industrial policy and its goal of creating a knowledge-based society with enterprises operating in markets open to international competition. Ms. Androuta Kaminara from the Information Society Project Office (ISPO), a joint initiative of Directorates General III and XIII of the European Commission, spoke about the information society in Europe, its present state, current trends and future prospects. She provided an overview of the history of information society developments in Europe and presented statistical information based on findings of the European Survey of Information Society. In her view, one of the key issues to be resolved in the future is the mismatch that currently exists between what industry needs in order to blossom and what the universities and the educational systems are capable of providing. Ms. Kaminara concluded her presentation by saying that the best way to forecast the future is to invent it.

During the Forum plenary sessions the participating countries presented their national strategies and proposed collaboration initiatives for building the information society in Southeastern Europe. The EU programs supporting the development and deployment of an information society were also presented. Common problems in the context of the global information society were identified and discussed, in particular the Year 2000 computer problem and the issues of privacy and protection of intellectual property rights in the digital age.

Participants were given the opportunity to attend three parallel thematic workshops which explored different aspects of the information society:

**Workshop I:** Building the Information Society: The Role of Industry and Research: Public-Private Partnerships and International Cooperation Opportunities.

*Chairs:* Prof. Evangelos Bouboukas, President of the General Secretariat for Research and Technology, and Director of the National Documentation Centre of Greece  
Prof. Stefan Hadjitodorov, Secretary of the Bulgarian Academy of Sciences

**Workshop II:** ICTs Shaping and Restructuring Society: New Opportunities and Concerns for the Future

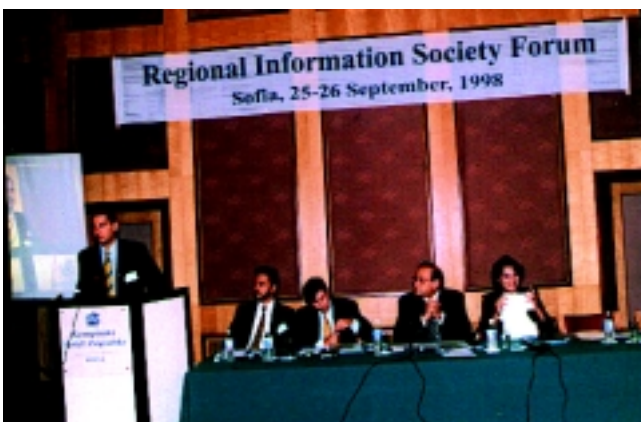
*Chairs:* Mr. Ivan Taushanov, Vice President of the Bulgarian Committee of Posts and Telecommunications  
Dr. Kiril Velez, Chair of the National Internet Initiative, Open Society Foundation - Sofia

**Workshop III:** The Year 2000 Computer Problem: A critical business issue. Levels of Awareness, Preparation and Solutions.

*Chairs:* Mr. Jonathan Spalter Associate Director of the United States Information Agency  
Mr. Fokion Zaimis, General Manager of the Federation of Hellenic IT Enterprises (SEPE)

Participants agreed unanimously that the creation of a global information society was an essential prerequisite to preserving and extending freedom and democracy, expanding and enhancing civil society, and promoting sustainable development for all members of the human family. They also formulated certain policy principles which need to be applied in developing the Global Information Infrastructure - encouraging private investment, promoting competition, creating a flexible regulatory framework that can keep pace with rapid technological and market changes, and ensuring a universal service so that the information infrastructure will be available to all members of society.

The Forum program allowed ample opportunities for business contacts and bilateral meetings which are expected to evolve into successful regional cooperation programs for the development of the information society in Southeastern Europe. A special web page dedicated to this event is available on the Internet at the following address: [www.online.bg/femirc/forum/index.html](http://www.online.bg/femirc/forum/index.html)



# Bulgaria Online: A Public Information Service on the Web

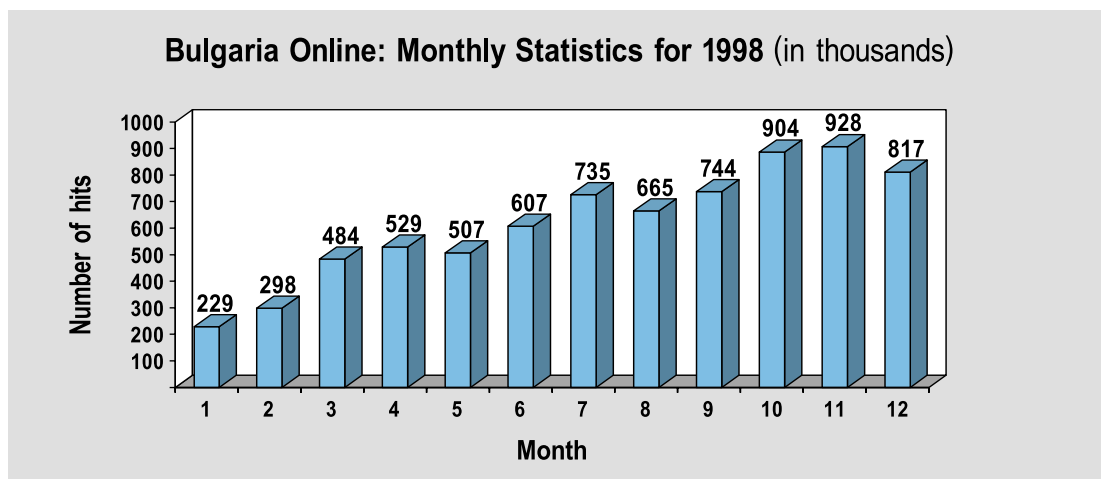
**Bulgaria Online** started in 1997 and has gradually developed into a self-contained Internet service at ARC Fund. In 1998, it was established as the leading Internet content provider in the country. Bulgaria Online offers a rich collection of local content on the web, including such features as: *Bulgarian Index*, a searchable digest of multilingual media sources on Bulgaria, *Bulgarian Statistics* database and a *Who's Who in Bulgarian Politics*. The site also hosts the web pages of the United Nations Development Program in Sofia, the World Bank Resident Mission to Bulgaria, the *Coalition 2000* initiative, the Bulgarian Stock Exchange, Bulgarian Privatization Agency, the State Telecommunications Commission and Ministry of Industry, along with the interactive editions of local newspapers and magazines - *Banker*, *Sega*, *Europe 2001*, and *Kultura*. This is complemented by a daily news digest covering articles from more than 20 Bulgarian papers and radio stations.



Bulgaria Online can be accessed on the Internet at [www.online.bg](http://www.online.bg)

Bulgaria Online's information resources attract a diverse 'readership' which extends far beyond the boundaries of the country. The number of visitors per month approached the 1 million mark by the end of 1998. A mirror site was established in the US to facilitate overseas access.

In September the site received international recognition in the *Best of Europe Award* competition. The *Business Central Europe* magazine praised the services for its content and “value for these who need to keep up on Bulgaria.”



## Freedom of Expression Focus

### Bulgarian Media Watch Society

The **Bulgarian Media Watch Society** is a virtual community of journalists and lawyers brought together by their common interest in safeguarding the fundamental right to freedom of speech and information in Bulgarian society.

ARC Fund has implemented this project since September 1997 under the European Union Phare Democracy Program. It is a two-year effort involving the following organizations: Interights, the London-based center for protection of human rights; the International Institute for Democracy in Strasbourg; the Open Society Foundation-Sofia; and the Legal Initiative for Training and Development (PIOR), coordinated by ARC Fund.

The Bulgarian Media Watch Society targets a diverse audience including media professionals (editors, reporters, media managers); legal practitioners (prosecutors, judges, private attorneys); media and legal experts; university professors and students in law, journalism and mass communications; non-governmental organizations dealing with the right to free expression, protection of human rights, and development of free and democratic media; legislators, parliamentarians, members of the National Radio and Television Council and their advisors; intellectuals; and all citizens who take an interest in the fundamental right to receive and impart information freely.

Making use of the Internet technology - as the most democratic medium available today - the Bulgarian Media Watch Society has opened up a new space for public debate concerning media legislation in the country, the rights and professional responsibilities of journalists, the relationship between the media and the judiciary, and the role of non-governmental and human rights organizations.

The core element of this project is an **online discussion forum on freedom of speech and information**. It was launched in June to facilitate the media debate in the country.

In 1998, the forum had two moderators who provided focus and structure to the online discussions - Mr. Hristo Butsev, deputy editor-in-chief of the weekly newspaper *Kultura* and Mr. Vassil Chobanov, journalist at Radio Free Europe in Sofia. Similar to columnists in a magazine publication, they are responsible for identifying and advancing issues that are of greatest relevance and interest to participants. A number of resource persons also contributed to the discussion, among them Ms. Nelly Koutzkova, member of the Supreme Judicial Council and chair of the Sofia District Court, Ms. Kapka Kostova, chair of the Sofia Regional Court and chair of the Association of Judges in Bulgaria, and Mr. Roumen Nenkov, member of the Supreme Court of Cassation. An advisory network of international legal experts will be developed in the future to provide expertise in solving media policy issues and disputes in the country. Summaries of the interactive discussions will be featured in the print edition of the *Kultura* weekly newspaper.

Much of the online debates in 1998 focused on the new law concerning radio and television, which dominated the media debate, particularly in the second half of the year. The main concern was that the law, which finally passed in Parliament in December, would fail to guarantee the political independence of the media and could create divisions between ethnic groups.

*By bringing together lawyers and journalists in an open and democratic discussion on the Internet, the Bulgarian Media Watch Society aims to strengthen the agenda for media pluralism in the country.*

A **public information desk** was established to facilitate participation in the online forum and to serve as a reference point in professional exchanges between legal and media experts. This electronic library includes documents and information materials on European and international media law, international freedom of expression and information law, international freedom of expression case law, current regulations within the national legal system and court practice, and pertinent decisions of the European Court on Human Rights (ECHR) in Strasbourg, among others.

The information desk stores a pool of online resources divided into several categories: media legislation, self-regulation, freedom of expression case law, professional associations, human rights organizations, media research resources and public opinion data.

The majority of documents are available in Bulgarian and include translations of relevant ECHR cases under Article 10 of the European Convention for Human Rights and Fundamental Freedoms, as well as summaries of freedom of expression cases from international human rights tribunals and Bulgarian courts. The public information desk is a dynamic structure which expands gradually.

The Internet site of the Bulgarian Media Watch Society is accessible at the following address:  
[www.mediator.online.bg](http://www.mediator.online.bg)

## International Conference “Institutional Guarantees for Freedom of Expression”

Several important events shaped the background to the public debate on freedom of speech and information in Bulgarian society during 1998. Early in the year, as a reaction to a wave of international and domestic protests, Bulgarian President Petar Stoyanov asked legislators to stop criminal prosecution of journalists in the courts. In April, 55 members of Parliament asked the Constitutional Court to declare three articles of the criminal code unconstitutional. Article 146 calls for a six-month imprisonment penalty for insult, while Article 147 punishes libel with up to a one-year sentence. Article 148 empowers state prosecutors, rather than the injured party, to open lawsuits for defamation on behalf of officials who claim their reputations have been damaged. If convicted, journalists face up to three years imprisonment for defaming public officials.

These statutes were believed to run in violation of Article 6 (2) of the Bulgarian Constitution, which states that all citizens should be treated equally before the laws and guaranteed equal protection from discrimination. The Bulgarian Constitutional Court, however, ruled on July 15 that the articles did not contradict the Constitution and, therefore, did not have to be rescinded.

The conference on “**Institutional Guarantees for Freedom of Expression**” was held only two days after the announcement of the Court’s decision, which had already produced a strong reaction among the Bulgarian journalist community, the general public and international media freedom organizations, such as the Committee to Protect Journalists in the USA and Article XIX in Great Britain.

The topic of the conference was particularly relevant and timely. It came at a moment when Bulgarian society was largely divided between those who thought that threats of prison sentences had a chilling effect on the media and encouraged self-censorship in a way that muzzled the public watchdog and weakened democratic structures, and those who supported the Constitutional Court’s decision, saying that journalists did not deserve preferential treatment and should not be given a license to libel freely.

The conference thus provided a platform for an urgent debate. It offered both sides the opportunity to voice their concerns and reconcile their positions. More than 50 journalists and media experts, legislators and legal practitioners, government officials and NGO representatives took part in the discussions. Among those present were Mr. Stoyan Raychevski, MP and chair of the parliamentary committee on media and culture, Justice Dimitar Gotchev, member of the Bulgarian Constitutional Court and the European Court on Human Rights in Strasbourg, Dr. Georgi Lozanov, member of the National Radio and Television Council, Professor Nelly Ognianova, director of the Bulgarian Institute for Legal Development and one of the authors of the new electronic media law, among others.

The conference program focused on the standards established by international legal instruments for protecting the right to freedom of expression and their implementation in Bulgarian legislation and judicial practice. The first two sessions were moderated by Mr. Borislav Petranov of Interights, and Judge Borislav Belazelkov of the Sofia City Court. Keynote speaker was Mr. Ad Van Loon, Administrator at the Media Section of the Council of Europe Directorate of Human Rights in Strasbourg. In his presentation Mr. Van Loon outlined the Council of Europe's practice, available instruments and experience in protecting the right to free expression. Justice Dimitar Gotchev provided an overview of the European Convention for the Protection of Human Rights and Fundamental Freedoms. As a member of the European Court of Human Rights with vast experience in the field, Mr. Gotchev talked in more practical terms about the Court's procedures and existing case law regarding the right to free expression. In the subsequent discussions, Mr. Yonko Grozev of the Bulgarian Helsinki Committee spoke about the compatibility of Bulgarian legislation and court practice with the international legal norms and standards concerning freedom of expression. Mr. Radomir Cholakov, acting Secretary General of Bulgarian National Television, offered an interesting approach to the problem of freedom of speech and information in television—between traditions, ethics and the law.

Also discussed was the issue of self-regulation in Bulgarian mass media. In this context participants considered the relations between the media and the judiciary, and the journalist's code of ethics and set of professional responsibilities. This session was chaired by Professor Vessela Tabakova, President of the Center for Independent Journalism, and featured presentations by Professor Georgi Lozanov on the topic of media as a realized freedom, and the complex relationship between the media and the institutions of power in Bulgaria in the years of democratic reform since 1989. Mr. Vassil Chobanov of Radio Free Europe talked about the relationship between the media and the judiciary. The rights and responsibilities of journalists were discussed by Justices Kina Choutourkova and Roumen Nenkov of the Supreme Court of Cassation. The journalists' viewpoint on the topic was presented by Mr. Hristo Butsev of the *Kultura* weekly.

Extensive coverage of the conference debates was published in September in the *Kultura* weekly newspaper. The full proceedings are available on the Media Watch Society web site ([www.mediator.online.bg/bg/e\\_b.htm](http://www.mediator.online.bg/bg/e_b.htm))

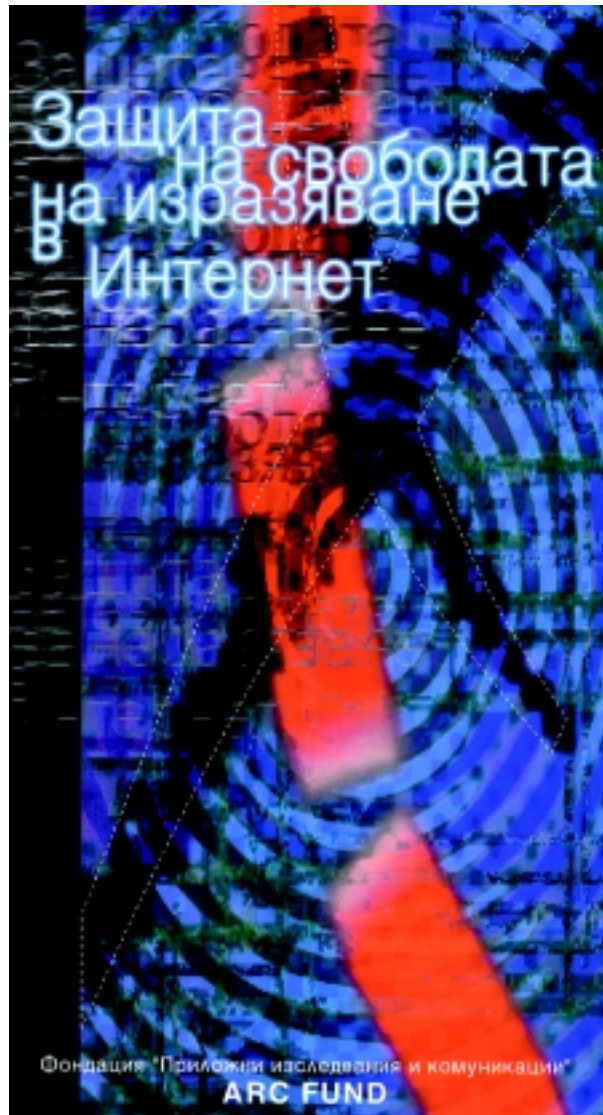


## Global Internet Liberty Campaign

In the autumn of 1998, ARC Fund became a member of the **Global Internet Liberty Campaign (GILC)**. The Campaign is an informal group of human rights and civil liberties organizations. Members of the coalition include the American Civil Liberties Union, the Electronic Privacy Information Center, Human Rights Watch, the Internet Society, Privacy International, the Association des Utilisateurs d'Internet, and other civil liberties and human rights organizations. The Global Internet Liberty Campaign advocates the following principles:

- Prohibiting prior censorship of online communication.
- Requiring that laws restricting the content of online speech distinguish between the liability of content providers and the liability of data carriers.
- Insisting that online free expression not be restricted by indirect means such as excessively restrictive governmental or private controls over computer hardware or software, telecommunications infrastructure, or other essential components of the Internet.
- Including in the Global Information Infrastructure (GII) development process citizens from countries that are currently unstable economically, have insufficient infrastructure, or lack sophisticated technology.
- Prohibiting discrimination on the basis of race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.
- Ensuring that personal information generated on the GII for one purpose is not used for an unrelated purpose or disclosed without the person's informed consent, and enabling individuals to review personal information on the Internet and to correct inaccurate information.
- Allowing online users to encrypt their communications and information without restriction.

ARC Fund, together with the Bulgarian Institute for Legal Development, are the only East European members of GILC. As its first contribution to the Campaign, ARC Fund translated and published in Bulgarian the report “Regardless of Frontiers: Protecting the Human Right to Freedom of Expression on the Global Internet.” Authors of the report are Mr. James X. Dempsey, senior staff counsel and Daniel J. Weitzner, deputy director of the Center for Democracy and Technology (CDT).



The report, originally published in the US in September 1998, contends that due to “the Internet’s uniquely open, global, decentralized and user-controlled nature, the Universal Declaration of Human Rights and other international human rights agreements should be read as offering especially strong protection to freedom of expression online.”

An electronic version of the report in Bulgarian is available on the Internet at [www.arc.online.bg/gilc](http://www.arc.online.bg/gilc)

# Information Brokerage in Innovation and Technology Transfer

## Fellow Member to the European Community Network of Innovation Relay Centers (FEMIRC Bulgaria)

Since January 1997, ARC Fund has been hosting the Bulgarian Fellow Member to the European Community Innovation Relay Centers. **FEMIRC-Bulgaria** is thus part of a Europe-wide network of 53 Innovation Relay Centres (IRCs) operating in the EU member states, Iceland, Norway, Switzerland and Israel, and ten Fellow Members in the candidate countries of Central and Eastern Europe. The goal of the IRC network is to promote innovation and encourage the exchange of the scientific research results among organizations across Europe.

FEMIRC-Bulgaria was selected through an open competition. It is a consortium of partners, coordinated by ARC Fund, and involving also the Ministry of Industry, the Bulgarian Academy of Sciences, the Bulgarian Industrial Association, and the Agency for Economic Analyses and Forecasting. The institutional set-up of the consortium ensures FEMIRC's access to diverse expertise and nation-wide contacts within the industrial and research communities. Through a network of local offices, FEMIRC-Bulgaria provides a good geographical coverage of the country. Two regional sub-nodes were established in 1998 in Plovdiv (southern Bulgaria) and Varna (in the northeastern part of the country).

A special "twinning" mechanism was designed by the European Commission to facilitate the work of FEMIRCs during the start-up period of their operation. Under this arrangement FEMIRC-Bulgaria works closely with the Innovation Relay Centre Help-Forward of Greece—a consortium between the Federation of Greek Industries, the Federation of Industries of Northern Greece, and the Greek Foundation for Research and Technology (FORTH). IRC Help-Forward has been instrumental in streamlining the operational tools and procedures adopted by the Bulgarian FEMIRC, and in facilitating its successful integration into the Community network. Hands-on training and practical assistance were provided through a series of staff exchanges between the two centers. Valuable professional advice was provided by Professor Alkiviades Payatakes, Director, and Mr. Nicholas Melanitis, Coordinator of IRC Help-Forward, as well as the other staff members.

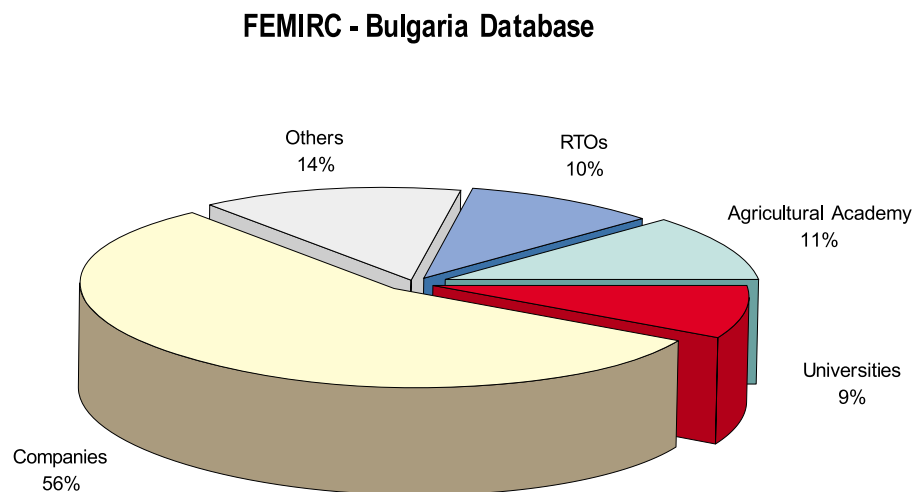
The FEMIRC is run as a one-stop-shop for technology transfer and innovation services to Bulgarian companies, especially small and medium-sized enterprises (SMEs), universities and research institutes. Its mission is:

- to facilitate the cooperation between research organizations and industrial enterprises;
- to improve the competitiveness of Bulgarian industry through transfer of technologies and know-how from the European programs for research and technological development (RTD);
- to promote the spirit of innovation in Bulgarian industry.

## Information and Consultancy Services

The first priority in the work of FEMIRC-Bulgaria during 1998 was to disseminate information on EU-funded research programs and the opportunities for participation by Bulgarian companies and research organizations.

To this end, FEMIRC generated an electronic *Database of Bulgarian Companies*, research organizations and laboratories with specific technology needs and interests. The database is used in everyday work as a tool for matching technology offers and requests circulated through the IRC's network with potential Bulgarian partners. Each entry is double checked to confirm the relevance of information. The database was updated regularly in 1998, reaching 220 entries towards the year-end.



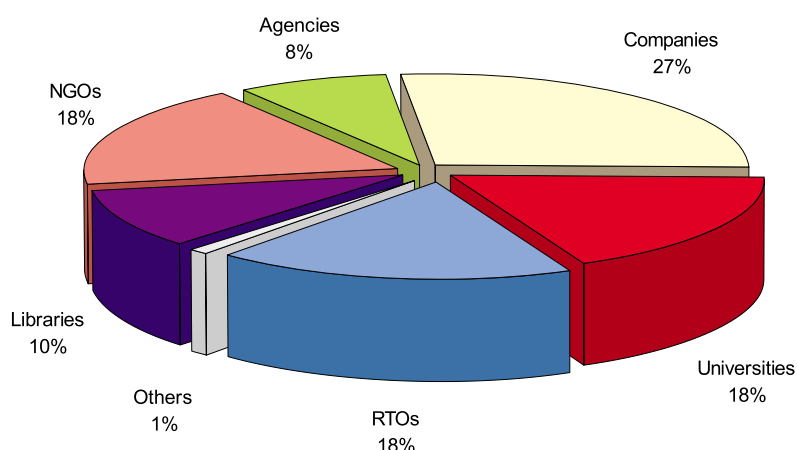
FEMIRC-Bulgaria made use of a broad set of information dissemination tools and techniques in order to respond quickly and efficiently to the growing local demand for information on EU programs and funding mechanisms for research and development:

- *VESTI*, the FEMIRC's quarterly bulletin, published background information on the EU RTD programs, opportunities to participate in calls for proposals, existing projects and funding schemes, upcoming events and other related topics. Five issues of the bulletin were published in 1998 and circulated among 1000 recipients, including 56 libraries, university departments, regional branches of the Bulgarian Academy of Science, industrial chambers, government departments and agencies, and NGOs.
- A bilingual World Wide Web site was launched on the Internet under [www.femirc.bg](http://www.femirc.bg).
- Flash bulletins on individual calls for proposals were distributed through targeted mailing to the most pertinent clients. Six flash bulletins were published in 1998 and sent out to more than 200 research organizations and SMEs.

- Information days, seminars and workshops disseminated knowledge about EU research and industrial exploitation programs. Thirteen information days were organized during the year, covering the following thematic programs: information technologies (ESPRIT), international cooperation with the countries of Central and Eastern Europe (INCO-Copernicus), and telematics applications for transport and libraries. The events attracted more than 300 participants.
- Short guides on European RTD programs were published, including a comprehensive guide to the new Fifth Framework Program of the European Communities for Research, Technological Development and Demonstration Activities.

Direct assistance was provided to the FEMIRC clients in identifying appropriate programs, finding suitable partners and establishing contacts to form international consortia for the development and submission of joint project proposals. Eligible Bulgarian partners received training and consulting services in proposal writing—especially for financial and budgeting matters—an expertise which was often lacking in research organizations and university research teams.

**Subscribers to the VESTI Bulletin**



## Technology Auditing and Technology Transfer

The second major activity of FEMIRC-Bulgaria focused on *innovation and technology transfer*.

The FEMIRC's task is to help local companies identify their technology needs, find suitable technologies to match these needs, assist them in technology transfer negotiations and promote new technological development in the country through inward technology transfer. In addition, it helps the local industry to identify suitable technologies eligible for outward transfer to foreign countries or industries. To fulfill this task, in 1998 FEMIRC-Bulgaria developed its original technology audit methodology, published an electronic *Portfolio* of new Bulgarian technologies, held two technology brokerage events, and actively circulated all technology offers and requests coming through the IRC's network among the local industrial and research communities.



The portfolio of new Bulgarian technologies is accessible through the FEMIRC web site at [www.femirc.bg](http://www.femirc.bg)

In the beginning of the year, the FEMIRC initiated the development of a methodology for technology auditing. The very concept of technology auditing is novel for Bulgaria. It implies a systematic examination of the technological assets of a company and its ability to innovate. The objective of the audit is thus to identify the demand of a given company for new technologies. Prominent academics and technology experts from the industrial management departments of the University of National and World Economics and Sofia Technical University were involved in the development stage.

In the second half of 1998 the methodology was tested in ten Bulgarian companies. As a result of these audits, 14 requests for new technologies and technical assistance were circulated among the Innovation Relay Centres in Europe. Encouraging business contacts were established with companies from Germany, Slovenia, the Czech Republic and Greece.

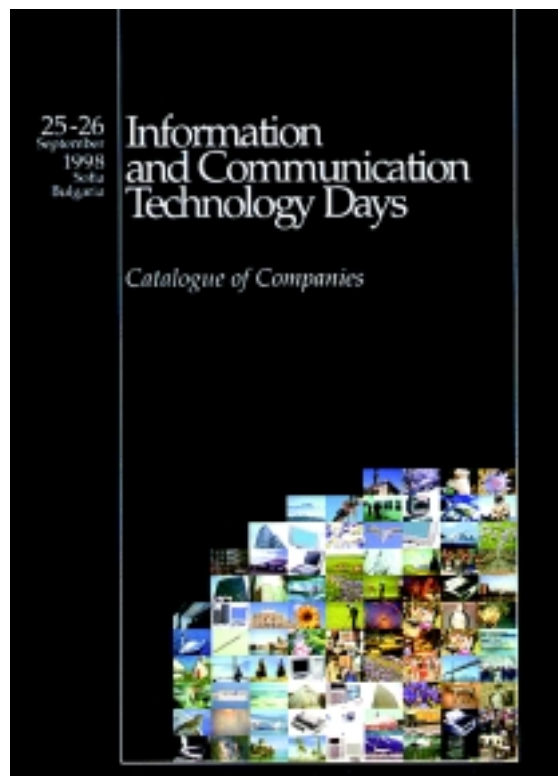
The FEMIRC *Technology Portfolio* provides information on new Bulgarian technologies and innovative products in the following technology areas: biology, medicine, environment, materials and industrial manufacture, energy and telecommunications. Twenty-six of all 51 technologies listed in the Portfolio were selected by CORDIS, the European Community information service for R&D, and included in the CORDIS RTD Supplement in 1998.

Two technology brokerage events were organized during the year. The first took place on June 18 in Sofia. It was co-organized by FEMIRC-Bulgaria and the Association of Machine Building and focused on mechanical engineering technologies. The event attracted over 100 participants from 48 companies, universities and research organizations.

The second technology brokerage event - Information and Communication Technology Days (ICT Days) - was organized during the Regional Information Society Forum held in late September in Sofia. The ICT Days were organized jointly by FEMIRC-Bulgaria and IRC Help-Forward from Greece. The event brought together organizations, service companies and researchers from Albania, Bulgaria, Greece, the Republic of Macedonia, Italy and Romania. The participating companies exhibited expertise in the areas of communications (radio, TV, data, mobile, satellite); networks, computing, hardware, software; applications in business, education, manufacturing, healthcare systems; banks/financial institutions; artificial intelligence related software; expert systems; Internet and online services; and databases.



Business representatives had the opportunity to show their company profiles, promote their products and know-how, make technology offers or requests, make business proposals, and take part in pre-arranged business meetings. Such business contacts were conceived as the beginning of future regional projects for transfer of technologies and know-how, for establishing joint venture companies and exploring new market opportunities. Thirty-seven companies participated in the event and another 50 visited the exhibition space. Over 120 bilateral meetings were registered. An English-language catalogue with the profiles of the participating companies (their expertise, products, know-how, and envisaged type of cooperation) was provided to the participants.



During 1998, the FEMIRC received over 300 technology offers and requests from the IRC's network. These demands were processed, evaluated, matched against the FEMIRC database of partner profiles, and followed-up on in the case of interest from potential Bulgarian partners. A total of 219 technology offers and requests were published in the *VESTI* bulletin and the FEMIRC web site.

In 1998, FEMIRC-Bulgaria received high assessment for the quality of its work and growing expertise in the field of innovation. The Bulgarian government invited the FEMIRC staff to contribute to the formulation of two national policy initiatives, namely the National Strategy for Technological Development, and the National Policy for the Support of SMEs. The European Commission also gave high evaluation to the performance of FEMIRC-Bulgaria during the first 18 months of its operation. A technical audit conducted by two international experts in May ranked FEMIRC - Bulgaria as a top-performer among the associate members of the IRC's network in Central and Eastern Europe.

# Coalition 2000: a Public-Private Partnership in Combating Corruption in Bulgaria

In the spring of 1998, ARC Fund became a founding member of **Coalition 2000**, an initiative of local NGOs to establish a public-private coalition against corruption in Bulgarian society. This process was started through the initiative of the Center for the Study of Democracy, and is supported by the United States Agency for International Development (USAID), the World Bank, United Nations Development Program (UNDP) and the Council of Europe.

The *Coalition 2000* process is based on the notion that only a joint effort of government, business and civil society can create a feasible deterrence to corruption. Its activities are focused in several areas:

- To assist democratic institution building, promotion of democratic values, and elaboration of an *anti-corruption action plan* by organizing panels of experts and legislators to develop amendments to the institutional and regulatory framework necessary to restrain corruption, particularly among public officials;
- To *promote public awareness* of corruption and establish mechanisms to support anti-corruption efforts through public education, advocacy and dissemination;
- To serve as a *watchdog* of the reform process, focusing attention on practical implementation of transparent and clear rules of the game, integrity, and democratic control.

The Anti-Corruption Action Plan for Bulgaria was endorsed in November 1998 by a Policy Forum attended by government ministers, heads of central government agencies, members of Parliament, business associations, NGOs and representatives of international organizations. The next priority in the work of the Coalition will be to reduce public tolerance of corrupt practices by means of a targeted awareness campaign.

With its background and past experience in the field of communications, ARC Fund's role in *Coalition 2000* is primarily in the design and implementation of the **anti-corruption awareness campaign**.

The Coalition's approach to public awareness draws on concepts and techniques from the domain of social marketing. The first task is to produce a cognitive change, i.e. to create awareness and knowledge in society. Marketing research is used at this stage to identify the groups that most need the information. Their media habits are analyzed, specific messages are formulated and are then delivered to the target audiences through a variety of media channels—radio and television programs, various training and educational events, posters, badges and the like.

The second stage attempts to induce affect. Here the target groups must not only comprehend the messages but also take a positive or negative position regarding a problem. At the final stage, the aim is to induce or help people to change some aspect of their behavior. In this way the social marketing campaign produces cognitive, affective and action change.

*Coalition 2000* focuses its campaigning and awareness activities on three target groups who are considered to be of key significance for the success of anti-corruption reforms in the country: the public at large, policy decision makers, and elite professionals, including the media. The awareness effort also aims to promote to the international community the efforts of the Coalition in generating institutional change.

The specific awareness messages promoted by the Coalition are based on a careful analysis of the attitudes, motives, and perceptions of corruption among the select target groups. The communication tools used in the implementation of the campaign are divided into two groups: *direct*, which involve or address the target groups directly, and *indirect*, or mediated, which reach the target audiences through some medium. Specific activities include the following:

- Information days and town-hall meetings are used to build public awareness through direct involvement of citizens and grassroots organizations at the community level.
- Public involvement is also encouraged through various 'anti-corruption' events, such as music festivals, 'anti-corruption' days, national competitions for an anti-corruption logo, poster, cartoon, or other 'attention-grabbing' instruments designed to appeal emotionally to the public's perception of anti-corruption issues.
- Articles in popular newspapers and magazines educate the public about the origins of corruption, the economic costs of corruption, and the legislative, policy and administrative reforms needed to prevent corruption.
- National and private radio networks are used to disseminate corruption survey results, interviews, educational programs, and radio clips.
- Regional and cable television networks are used to provide a comprehensive geographical coverage of the country.
- Targeted dissemination to leading Bulgarian journalists reinforces the impact of the Coalition's public awareness efforts.

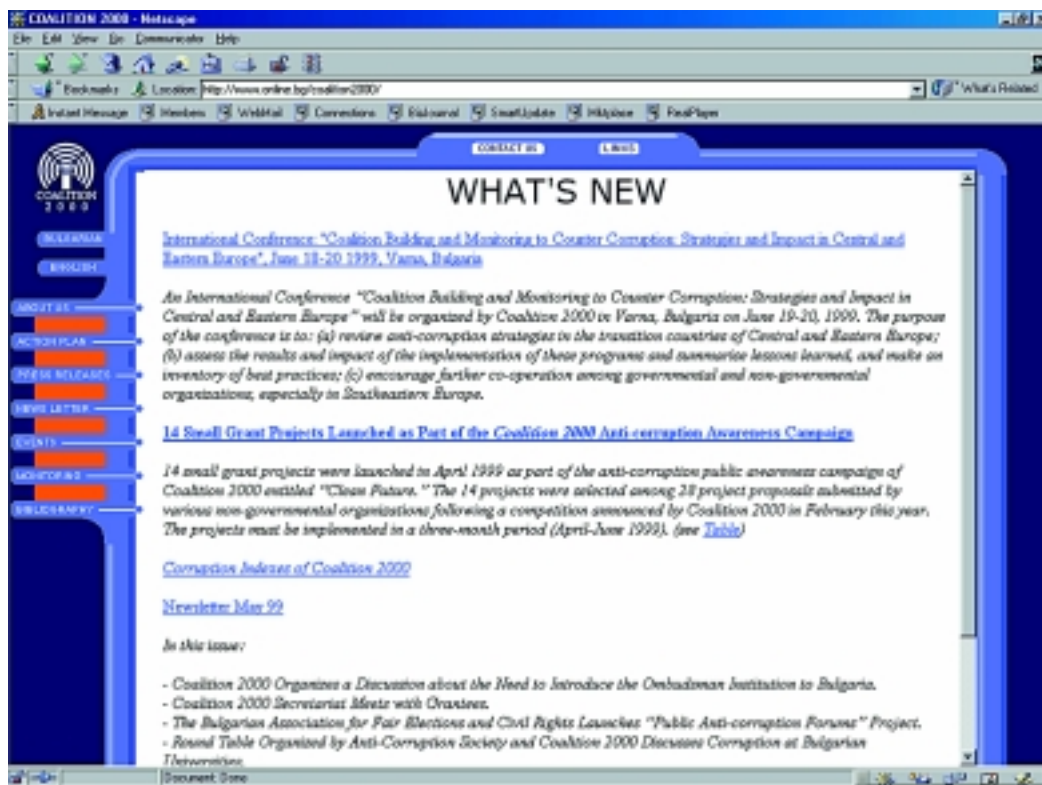
In the second half of 1998, ARC Fund implemented a series of activities intended to establish the information dissemination channels of *Coalition 2000*. The team of in-house web designers developed a bilingual Internet site which is hosted by *Bulgaria Online* and is accessible at the following address:

[www.online.bg/coalition2000/](http://www.online.bg/coalition2000/). The site is used as an effective outward promotion tool for the Coalition activities. It stores all information resources developed within the framework of the initiative, including the full text of the Anti-Corruption Action Plan for Bulgarian, a *Coalition 2000* monthly electronic newsletter, an archive of press releases and a calendar of events. A special 'Monitoring' section features quarterly *Corruption Indexes*, an original monitoring tool developed by the Coalition to keep track of public perceptions of corruption in Bulgarian society.

In order to facilitate an informed public debate in the country, ARC Fund also developed an anti-corruption *Information Desk* as a major reference point for information regarding policies, case studies, and best practices in preventing corruption. This database contains a collection of links to relevant anti-corruption resources available on the Internet, and an annotated bibliography of over 200 books and publications in the field. In the future, the Information Desk will be expanded to include indigenous anti-corruption resources, such as texts of regulatory and policy documents, research papers and corruption survey findings.

An *Electronic Notification System* was put in operation by the end of the year to distribute electronically information regarding the Coalition's activities and public events to a large group of journalists from the major news agencies and electronic and print media throughout the country. This mailing list facility complements the other publicity channels used by the Coalition.

ARC Fund will continue to provide technical and information support to the Coalition activities and public awareness campaign in 1999.



## Staff

Dr. Inko Razpopov, Executive Director  
Dinka Dinkova, Program Director  
Nickolay Badinski, Technical Director  
Zoya Damianova, FEMIRC Coordinator  
Christina Nedeva, FEMIRC Information Officer  
Stella Dimitrova, FEMIRC Information Officer  
Anna Dinidou, ARC/FEMIRC Development Officer  
Professor Milanka Slavova, FEMIRC Consultant  
Professor Marin Petrov, FEMIRC Consultant  
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Branimir Ananiev, Senior System Administrator  
Ognian Antonov, Senior Webmaster  
Stephan Kiriakov, Webmaster  
Tsanko Hristov, System Administrator  
Ivan Uzunov, System Administrator  
Zhanin Barzanova, Chief Economist  
Daniela Zain, Accountant  
Tania Dashinova, Office Assistant

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Antoni Slavinski, President, Committee of Posts and Telecommunications, Sofia  
David Webster, Chairman, Trans-Atlantic Dialogue on Broadcasting and the Information Society, Washington, D.C.  
Grozdan Karadjov, Secretary General, Committee of Posts and Telecommunications and Chairman of the Board, Bulgarian Telecommunications Company, Sofia  
Ivan Taushanov, Vice President, Committee of Posts and Telecommunications, Sofia  
James X. Dempsey, Senior Staff Counsel, Center for Democracy and Technology, Washington, D.C.  
Justice Kina Choutourkova, Member of the Supreme Court of Cassation, Sofia  
Professor Alkiviades C. Payatakes, Director, Innovation Relay Center Help-Forward, Greece  
Pantelis Tzortzakis, CEO, FORTHnet A.E., Greece  
Stefan Sofianski, Mayor of the City of Sofia

# Partners and Supporters

- ARD, Germany
- Albanian Center for Economic Research
- British Association for Central and Eastern Europe
- Center for Democracy and Technology, Washington, D.C.
- Center for International Private Enterprise, Washington, D.C.
- Center for Political Research, Greece
- ForthNet S.A., Greece
- Innovation Relay Centre Help-Forward, Greece
- International Broadcasting Audience Research, BBC World Service
- Institut Méditerranéen de la Communication (IMCOM), Paris
- Interights, London
- International Communication Studies Program, Center for Strategic and International Studies, Washington, D.C.
- International Executive Service Corps
- International Institute for Communications, London
- International Institute for Democracy, Strasbourg
- INCO-Copernicus Program of the European Communities
- Innovation Program of the European Communities
- NATO Office of Research
- Open Society Foundation - Sofia
- Phare Democracy Program of the European Communities
- Phare Partnership Program of the European Communities
- School of Communication, University of London
- Social Policy Research Unit (SPRU), University of Sussex
- Südost-Institut, Germany
- Hanns-Seidel-Stiftung, Germany
- International Media Fund
- InfoDev Program of the World Bank
- National Association of Broadcasters, Washington, D.C.
- National Telecommunications and Information Administration, U.S. Department of Commerce
- New Bulgarian University Department of Telecommunications
- Trans-Atlantic Dialogue on Broadcasting and the Information Society
- United Nations Development Program
- U.S. Agency of International Development
- U.S. Telecommunications Training Institute

# **ARC Fund**

**Organisation's Financial Statements  
For the year ended 31 December 1998  
With Independent Auditors' Report Thereon**



### **Auditors' report to the Board of Trustees of the ARC Fund**

We have audited the financial statements of the Applied Research and Communications Fund for the year ended 31 December 1998 set out on pages 35 to 45.

### **Respective responsibilities of directors and auditors**

The organization's management is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the organization's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

Neither an income statement for the year ended 31 December 1997 nor a balance sheet at that date were prepared in BGL under International Accounting Standard No 29, "Financial Reporting in Hyperinflationary Economies". Therefore no audit of the financial statements, prepared in BGL in accordance with International Accounting Standard No 29, for the year ended 31 December 1997 has been undertaken. No corresponding figures for the year ended 31 December 1997 and no cash flow statement for the year ended 31 December 1998 have been audited or presented as required by IAS 5 "Information to be Disclosed in Financial Statements" and IAS 7 "Cash Flow Statements". An audit of the financial statements has been performed by another auditor (Price Waterhouse Coopers) for the financial period ended 1997 and these financial statements have been prepared in USD.

No consolidation of the investment has been made as stated in note 1.

In our opinion, except for the matters referred to above and the adjustments, if any, to the opening balances on reserves at 1 January 1998 which we might have determined had we undertaken audit work on the financial statements for the year ended 31 December 1997, the financial statements give a true and fair view of the state of affairs of the Applied Research and Communications Fund at 31 December 1998 and the excess of income over expenditure in accordance with International Accounting Standards.

*KPMG Bulgaria OOD*

KPMG Bulgaria OOD  
Sofia, Bulgaria  
22 February 1999

**ARC Fund**  
**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998**  
*Financial Statements are prepared in thousands of BGL*

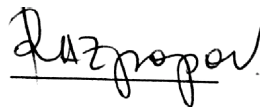
	Notes	For the year ended 31 December 1998
Revenue from grants, contributions and projects	2	728,168
Expenses on grants, contributions and projects	3	(696,362)
General and administrative expenses		<u>(6,197)</u>
<b>Gross excess of revenue over expenditure</b>		<b>25,609</b>
Foreign exchange gains - net	4	53,238
Interest income		730
Other financial expenses		(12,144)
Other income		136
Write down of investments		<u>(571)</u>
		<b>66,998</b>
<b>Gain on net monetary position</b>		<b>(3,954)</b>
<b>Excess of revenue over expenditure for the year</b>		<b>63,044</b>
Accumulated excess of revenue over expenditure brought forward		<u>223,063</u>
<b>Unrestricted fund balances at 31 December 1998</b>		<b><u><u>286,107</u></u></b>

The accompanying notes on pages 38 to 45 form an integral part of these financial statements.

**ARC Fund**  
**BALANCE SHEET FOR THE PERIOD ENDED 31 DECEMBER 1998**  
*Financial Statements are prepared in thousands of BGL*

	Notes	For the year ended 31 December 1998
<b>Current Assets</b>		<b>268,997</b>
Inventories		23
Receivables	5	218,002
Cash and cash equivalents	6	40,187
Deferred expenses	7	10,785
<b>Non-current assets</b>		<b>454,430</b>
Property, plant and equipment	8	413,979
Intangible fixed assets	9	4,671
Investments	10	35,780
<b>Total Assets</b>		<b><u>723,427</u></b>
<b>Liabilities</b>		
Payables	11	209,078
Deferred revenue	12	228,242
<b>Total Liabilities</b>		<b><u>437,320</u></b>
<b>Unrestricted fund balance</b>	<b>13</b>	<b><u><u>286,107</u></u></b>

The fund's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 38 to 45.



Inko Razpopov  
Executive Director

**Significant accounting policies**

**(a) Activity background**

The Applied Research and Communications Fund (ARC Fund) is a private non-profit organization founded in 1991 in Sofia. Its mission is to facilitate the institutional reform and liberalization of telecommunications in Bulgaria; to facilitate the development of the information society in South Eastern Europe; to create decentralized cross-border networks of NGOs by utilizing modern information and communication technologies.

**(b) Basis of preparation**

These financial statements have been drawn up in conformity with International Accounting Standards.

The financial statements are presented in BGL, after taking into consideration the fact that during the last several years the fund has operated in a hyper-inflationary environment. The officially published inflation indices for 1996, 1997 and 1998 are 410.8%, 678.6% and 101% respectively. For the period ended 31 December 1997 no financial statements in accordance with IAS 29, "Financial reporting in hyperinflationary economies", has been prepared. Since this is the first financial year that such audited financial statements are prepared, no comparative figures are presented.

**(c) Foreign currencies**

Monetary assets in foreign currencies have been revalued on a monthly basis as required by the Accountancy Act. As a result foreign exchange differences have arisen. Deferred revenue and other liabilities denominated in foreign currencies are carried at their historical values.

The exchange rate as of 31 December 1998 was BGL 1675.10 = USD 1. (Closing rate for 1997 - BGL 1765,5 = USD 1).

**(d) Property, plant and equipment**

Tangible and intangible fixed assets are inflated in accordance with International Accounting Standard 29, Financial reporting in hyperinflationary economies. The monthly inflation indices as officially published by the National Institute of Statistics have been used. Since these are computed using the month of December of the previous year as a basis, chain indices from the month of purchase to the end of the year under review, have been used to measure the cumulative effect of inflation. The tangible and the intangible fixed assets have then been depreciated using the straight line method over their estimated useful lives. The accumulated depreciation and the charge for the current year have been inflated using the above described method.

Freehold land was purchased in 1998. It has neither been inflated nor depreciated.

The rates of depreciation used are as follows:

Buildings	4%
Plant and equipment	20%
Fixtures and fittings	20%
Vehicles	20%
Intangible assets	20%

**(e) Investments**

Investments classified as long-term assets which are not considered to be material as compared to the overall balance sheet value of the ARC Fund are carried at cost, less any amounts written off to recognise a decline in the value of the investment. As the subsidiaries perform economic activity the investments in them are not included in the parent's separate financial statements because if included the statements will not give a true and fair presentation of the activity of the ARC Fund. Due to the above mentioned reason the investments have not been consolidated.

**(f) Revenue recognition and expense reporting**

The income of the ARC Fund consists of funds extended by international financing bodies for the completion of accepted projects. The amounts are carried in the balance sheet as deferred revenue at their historic values. Every project is commenced with a signing of a contract where the financing body determines the budget, payment installments and the rates at which expenses incurred in BGL are to be translated into the respective foreign currency. The respective amount of BGL expenses are translated at the specified rate and an expense report in foreign currency is produced. It is used to report on the progress of the project before the financing organization. These reports are prepared at a frequency determined by the contract for the project assignment.

Revenue is recognised in the income and expenditure account on the basis of completed stage as reported by the Fund to the commissioning bodies. Revenue is recognised as income for the period to match the related costs, on a systematic basis. Project contracts are denominated in foreign currency, while the related expenses are incurred in BGL. Expenses as revalued in foreign currency correspond to the revenues in the same foreign currency.

**(g) Change in accounting policy**

There has been a change in the principle of revenue recognition as compared to the previous financial period. In 1997 revenue has been recognized in the year of the project completion, although it may not be the year when all expenses have been incurred.

In 1998 income is recognized on accrual basis at the year end for completed and continuing projects. The maximum amount of revenue that can be recognised is the amount of expenses incurred. The deferred revenue is depreciated on a project basis. The relevant amounts are recognized as income. The difference to the total amount of BGL expenses is also recognised. Since this amount must correspond to the currency amount from the expense report, which is booked at another rate, an exchange rate difference occurs.

**(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks.

**(i) Taxation**

ARC Fund is a non profit organization Therefore it has no tax liabilities.

Deferred tax has not been incurred in the financial statements due to the fact that this tax could not be levied on grants.

**2. Revenue from grants, contributions and projects**

	<b>For the year ended 31 December 1998 BGL'000</b>
IRC Project	265,808
Phare Partnership Project	225,462
Phare Democracy Project	108,021
Other projects	<u>128,877</u>
	<b><u><u>728,168</u></u></b>

**3. Expenses on grants, contributions and projects**

	<b>For the year ended 31 December 1998 BGL'000</b>
Salaries and benefits	336,716
Hired services	184,400
Depreciation	87,319
Supplies and consumable	26,281
Other expenses	<u>61,646</u>
	<b><u><u>696,362</u></u></b>

**4. Foreign exchange gains**

	<b>For the year ended 31 December 1998 BGL'000</b>
Exchange rate gains from operations	72,278
Exchange rate losses from operations	<u>(19,040)</u>
	<b><u><u>53,238</u></u></b>

Differences on exchange rates have arisen in the cases when debtors, cash and creditors denominated in foreign currencies have been revalued on a monthly basis.

Differences on exchange rates have arise when income and expenses have been matched. Since deferred revenue is received in foreign currencies and expenses are incurred in BGL when they are matched at every reporting period foreign exchange rate differences occur.

**ARC Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**

**5. Receivables**

	<b>For the year ended 31 December 1998 BGL'000</b>
<b>Completed Projects</b>	<b>204,008</b>
IRC Project	155,680
Phare Partnership Project	46,701
Other projects	1,627
<b>Other receivables</b>	<u><b>13,994</b></u>
	<u><u><b>218,002</b></u></u>

Since revenue and expenses on projects are matched on a yearly basis to conform with the accruals principle, receivables consisting of expenses incurred on fully completed projects, arise.

**6. Cash and cash equivalents**

	<b>For the year ended 31 December 1998 BGL'000</b>
<b>At bank</b>	<b>34,233</b>
In local currency	1,788
In foreign currency	32,445
<b>In hand</b>	<b>5,954</b>
In local currency	3,392
In foreign currency	<u>2,562</u>
	<u><u><b>40,187</b></u></u>

**7. Deferred expenses**

	<b>For the year ended 31 December 1998 BGL'000</b>
OSF Project	8,960
Phare Democracy Project	<u>1,825</u>
	<u><u><b>10,785</b></u></u>

Since revenue and expenses on projects are matched on a yearly basis to conform with the accruals principle, deferred expenses consisting of expenses incurred on projects that have not been completed yet, arise.

**ARC Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**

**8. Property, plant and equipment**

	<b>Land and buildings BGL'000</b>	<b>Plant and equipment BGL'000</b>	<b>Vehicles BGL'000</b>	<b>Fixtures and fittings BGL'000</b>	<b>Total BGL'000</b>
<b>Cost or valuation</b>					
At 1 January 1998	-	320,239	8,198	877	329,314
Additions	161,339	87,804	-	-	249,143
Disposals	-	(3,317)	-	-	(3,317)
Inflationary adjustment (+)	-	3,235	82	9	3,326
Inflationary adjustment (-)	(3,222)	(811)			(4,033)
<b>At 31 December 1998</b>	<b>158,117</b>	<b>407,150</b>	<b>8,280</b>	<b>886</b>	<b>574,433</b>
<b>Accumulated depreciation</b>					
At 1 January 1998	-	73,770	2,241	18	76,029
Charge for the year	1,410	83,696	1,656	222	86,984
Disposals	-	(3,317)	-		(3,317)
Inflationary adjustment (+)	-	736	22		758
<b>At 31 Dec. 1998</b>	<b>1,410</b>	<b>154,885</b>	<b>3,919</b>	<b>240</b>	<b>160,454</b>
<b>Net book value as at 31 Dec. 1998</b>	<b><u>156,707</u></b>	<b><u>252,265</u></b>	<b><u>4,361</u></b>	<b><u>646</u></b>	<b><u>413,979</u></b>
<b>Net book value as at 31 Dec. 1997</b>	<b><u>-</u></b>	<b><u>246,469</u></b>	<b><u>5,957</u></b>	<b><u>859</u></b>	<b><u>253,285</u></b>

**ARC Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**

**9. Intangible fixed assets**

	Software BGL'000	Patents, license, trade marks BGL'000	Total BGL'000
<b>Cost or valuation</b>			
At 1 January 1998	464	817	1,281
Additions	4,515	-	4,515
Disposals	-	-	-
Inflationary adjustment (+)	5	8	13
Inflationary adjustment (-)	(32)		(32)
<b>At 31 December 1998</b>	<u><b>4,952</b></u>	<u><b>825</b></u>	<u><b>5,777</b></u>
<b>Accumulated depreciation</b>			
At 1 January 1998	410	354	764
Charge for the year	170	165	335
Disposals	-	-	-
Inflationary adjustment (+)	4	3	7
<b>At 31 Dec. 1998</b>	<u><b>584</b></u>	<u><b>522</b></u>	<u><b>1,106</b></u>
<b>Net book value as at 31 Dec. 1998</b>	<u><u><b>4,368</b></u></u>	<u><u><b>303</b></u></u>	<u><u><b>4,671</b></u></u>
<b>Net book value as at 31 Dec. 1997</b>	<u><u><b>54</b></u></u>	<u><u><b>463</b></u></u>	<u><u><b>517</b></u></u>

**10. Investments**

	% capital ownership	For the year ended 31 December 1998 BGL'000
Agency Atlantic EOOD	100	5,000
Radio Atlantic Varna EOOD	100	20,780
Atlantic Plovdiv EOOD	100	5,000
Atlantic Pleven EOOD	100	5,000
Investments in radio stations Atlantic, Galateja and Maja, which stations are in a process of liquidation		571
Provisions		<u>(571)</u>
		<u><u><b>35,780</b></u></u>

Investments have not been inflated. ARC Fund is a not-profit organisation but the subsidiaries perform economic activity. Thus if their separate financial statements are included in the parent's separate financial statements, these will not give a true and fair presentation of the activity of the ARC Fund.

**ARC Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**

**11. Payables**

	<b>For the year ended 31 December 1998 BGL'000</b>
Payables to the budget	9,144
Salaries and social security payables	18,309
Short term loan from CSD	134,008
Other payables	<u>47,617</u>
	<b><u>209,078</u></b>

The payables to the budget consist of income tax levied on salaries for the month of December 1998.

**12. Deferred revenue**

	<b>For the year ended 31 December 1998 BGL'000</b>
For project activities	71,075
For fixed assets	<u>157,167</u>
	<b><u>228,242</u></b>

**13. Unrestricted funds balance**

	<b>Accumulated fund BGL'000</b>
Balance at 1 January 1998	220,854
Revaluation for the period	2,209
Excess of revenue over expenditure for the year	<u>63,044</u>
<b>Balance at 31 December 1998</b>	<b><u>286,107</u></b>

**14. Contingent liabilities**

There are no contingent liabilities to report on.

**ARC Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**

**15. Related parties**

<b>Related party</b>	<b>Nature of the</b>	<b>Type of</b>	<b>Transaction</b>
<b>Outstanding balance</b>	<b>related party</b>	<b>transaction</b>	<b>during the year</b>
<b>receivables</b>	<b>relationship</b>		
<b>31 December 1998</b>			
Agency Atlantic BGL 849,564 EOOD USD 1,208	100% of the capital owned by ARC fund	Financing	
		Service performed	BGL 405,924
Atlantic Plovdiv USD 369 EOOD	100% of the capital owned by ARC fund	Financing	
Radio Atlantic BGL 512,421 Varna EOOD	100% of the capital owned by ARC fund	Financing	
<b>Liabilities</b>			
Center for the USD 80,000 Study of Democracy	CSD and ARC Fund are both represented by the Chairman of the Board of Trustees	Financing	USD 80,000

**16. Post balance sheet events**

There have been no material changes or transactions subsequent to the balance sheet date that require adjustment or disclosure in the financial statements prepared for the period ended 31 December 1998.

## **ARC FUND**

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