

A R C  
APPLIED RESEARCH & COMMUNICATIONS  
FUND

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## Table of Contents

**Mission Statement 7**

**Foreword 8**

**Information Society 11**

Internet Alliance for Economic Development 12

Internet for Sustainable Development 30

Bulgaria Online 36

Regional IS Forum 44

**IT and Democratic Transition 49**

Media Watch 50

Anti-Corruption Efforts 60

IT for Transparent Local Governments 66

**Innovation and Technology Transfer 73**

FELLOW MEMBER TO THE EUROPEAN COMMUNITY NETWORK  
OF INNOVATION RELAY CENTRES (FEMIRC-BULGARIA)

Technology Transfer 80

Information and Consultancy on the Fifth Framework Programme 88

National Contact Point for Innovation and SMEs 96

**Staff Members 102**

**Board of Trustees 104**

**Partners and Supporters 108**

**Financial Review of 1999 111**

### **Mission Statement**

The Applied Research and Communications Fund, ARC Fund, is a private non-profit organization founded in 1991 in Sofia. Its **mission** is:

To facilitate cross-border networking and capacity building of non-governmental organizations, and public and private agencies, based on the opportunities created by new media and information technologies;

To contribute to the development of an information society in the countries of Southeast Europe;

To encourage the competitiveness and growth of economies in the region through promotion of innovation and transfer of advanced technologies and know-how.

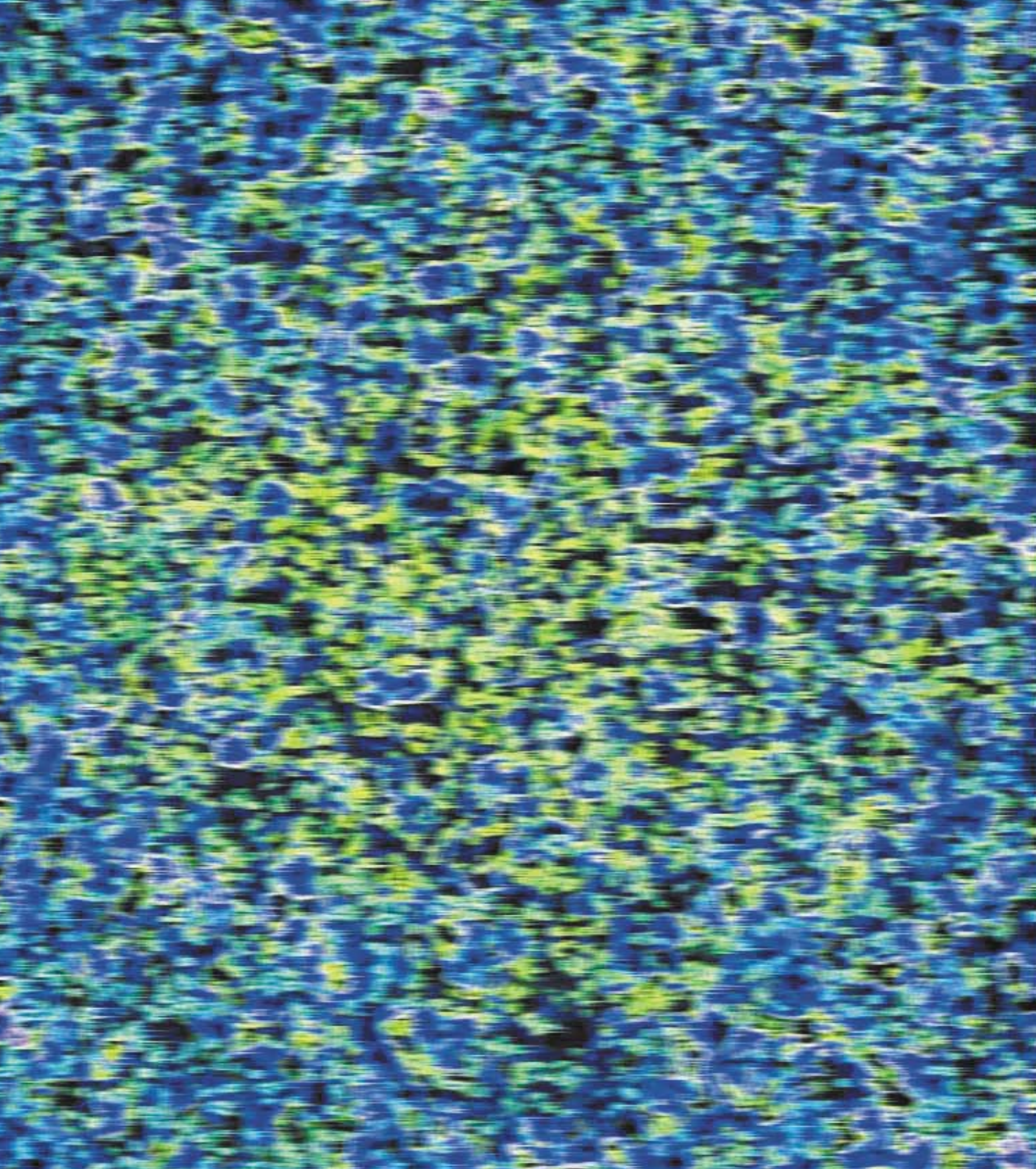
## Foreword

In 1999, ARC Fund continued to build expertise in the areas of information society and innovation. The most significant new initiative launched during the year was the Internet Alliance for Economic Development, a private-public coalition established to promote the use of Internet and electronic commerce as driving forces for sustainable economic growth in Bulgaria. The Alliance provides a platform for government, business and civil society to coordinate their efforts, and engage in an energetic debate about the future of Internet development in the country. Its most important achievement to date has been the drafting of Bulgaria's e-commerce legislation. An Electronic Document and Electronic Signature bill was developed in 1999, incorporating the input of a broad network of local and international experts.

In another new development, ARC Fund has partnered with the City of Sofia to design a strategy for municipal government modernization based on information and communication technologies. A project entitled Enhancing Transparency in Local Government is being implemented with the support of the World Bank infoDev Program. It envisions the development of a Municipal Government Management Information System to improve the internal management processes of the local government, and the citizens' access to information and service delivery.

ARC Fund's innovation and technology transfer unit, FEMIRC-Bulgaria, continued its successful operation in 1999. As of July 2000, it will become a full member of the extended network of Innovation Relay Centers (IRCs) operating under the auspices of the new European enterprise policy. With that its activities are also being refocused towards provision of services and support mainly to innovative small and medium-sized enterprises, and assistance to local businesses in matters of transnational innovation and technology transfer. The aim is to contribute to the advancement of innovation and technological development of the industrial small business sector in Bulgaria by fostering technological collaboration and networking with European industries and research and technology organizations.

The following report describes the year's highlights, and ARC Fund's various other activities, in greater detail. Updated information on new programs and initiatives is regularly being published on the organization's website at [www.arc.online.bg](http://www.arc.online.bg).



**Information Society**

## Internet Alliance for Economic Development

In mid-1999 ARC Fund initiated a process which led to the creation of an **Internet Alliance for Economic Development**, a coalition of public and private institutions and individuals committed to promoting the use of Internet as a tool for accelerating Bulgaria's economic development ([www.online.bg/iaed](http://www.online.bg/iaed)).

● Promoting the formulation of a conducive regulatory environment in order to expand access to the Internet and its applications, such as e-commerce, in Bulgaria, and other countries in Southeast Europe;

● Providing a partnership platform that facilitates the input of all interested stakeholders in a process of concern to the whole society;

● Facilitating the transfer of advanced international know-how and expertise, particularly in the field of e-commerce;

● Implementing pilot initiatives that demonstrate Internet applications in democracy and governance;

● Promoting Internet knowledge and skills through training programs for NGOs, private businesses, local governments and schools.

The launch of the Internet Alliance was ARC Fund's most significant new initiative undertaken in 1999. It combines a series of **activities** grouped in three categories: Policy, Economy and Monitoring.

The **policy component** envisages the development of a benchmarking document to help assess the e-commerce readiness of countries in Southeast Europe (i.e. their infrastructure capabilities, access to critical Internet services, uses of Internet by civil society, business and government) with a view to mapping the growth of Internet in the region. A similar tool - **GUIDE TO GLOBAL ELECTRONIC COMMERCE READINESS** - has already been designed by the Computer Systems Policy Project (CSPP), an initiative launched in 1989 by the CEOs of leading US computer systems companies ([www.cspp.org](http://www.cspp.org)), and could serve as a model.

The purpose of the **economy component** is to introduce some of the fundamentals of the Internet economy. First and foremost, the Internet Alliance seeks to facilitate the formulation of an adequate policy and regulatory framework for development of electronic commerce. This involves the actual drafting of Bulgaria's e-commerce and digital signatures legislation. A core team of drafters was established during the year under the auspices of the Internet Alliance. The actual work was coordinated by the Law Program of the Center for the Study of Democracy (CSD) – one of its founding organizations. In early 1999, this group held orientation meetings and consultations with all major stakeholders interested in the legal regulation of the matter, namely business associations, government regulatory bodies, departments and ministries. It also researched the most important international legal instruments already adopted, or currently in preparation, which regulate the use of alternatives to paper-based methods of communication.

The drafting process incorporated the input of a large number of experts, including a council of local IT specialists and legal practitioners who provided valuable assistance to the drafting team. A concept paper and draft law on **ELECTRONIC DOCUMENT** and **ELECTRONIC SIGNATURE** were prepared by the end of 1999, and will be presented to the Bulgarian government early this year.

In addition to the law-drafting activities, the Internet Alliance plans a number of demonstration projects to showcase how the Internet technology can be used to the service of democracy and good governance, education, and regional cooperation. Publicity measures are also envisaged to raise the local public's awareness of the benefits, and social challenges, associated with the coming information age.

The **monitoring component** will evaluate the status of information society development in Bulgaria and its neighboring countries in the Balkan region. The purpose is to assess technical infrastructure, uses of information technologies, public attitudes towards IT, and the legal and institutional frameworks of the information society. The monitoring system will be based on an integrated set of quantitative and qualitative research, expert assessments, surveys of the general public and professional communities. The monitoring exercise will use the methodology and policy context of US and EU sources. It will be designed and implemented by CSD's survey research unit, Vitosha Research.

Charts: Gauging the Information Society in SEE

Chart 1:  
**Teledensity (telephone lines per 100 inhabitants)**

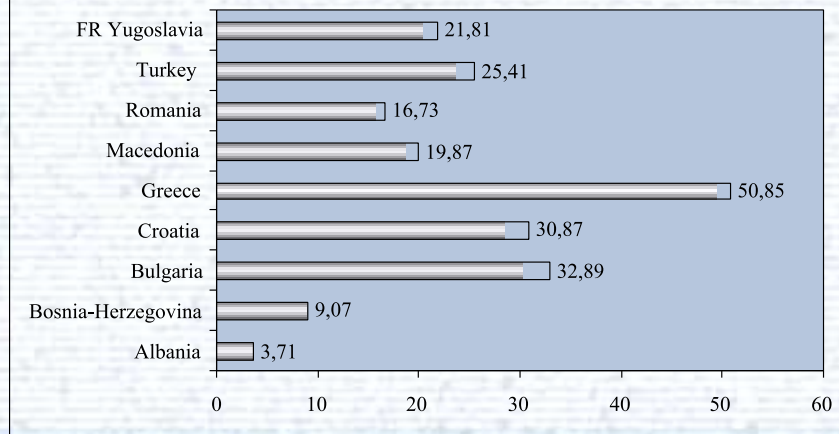


Chart 2:  
**Mobile Telephony (number of lines)**

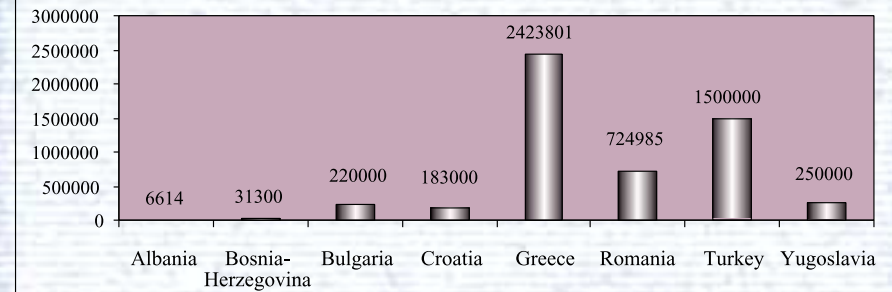


Chart 3:  
**Cable TV Penetration (as percentage of population)**

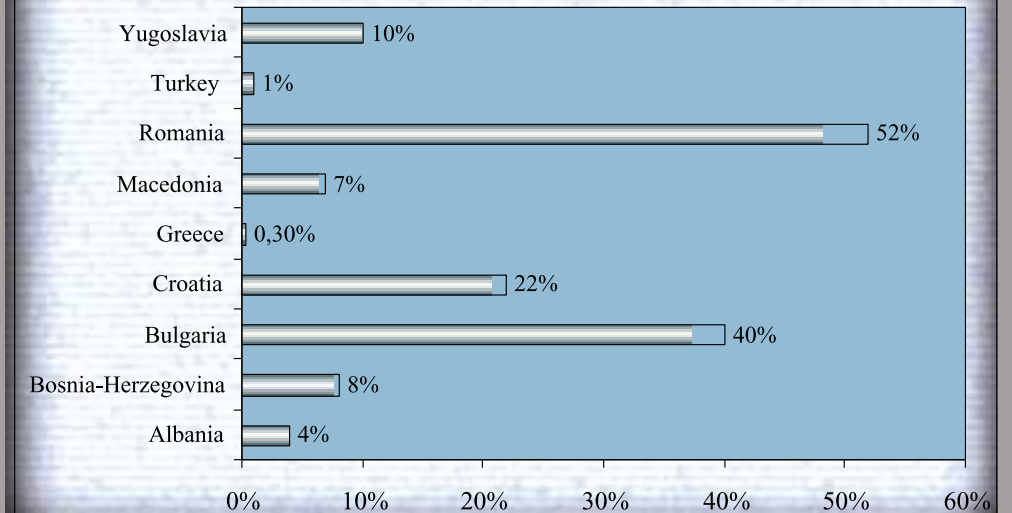


Chart 4:

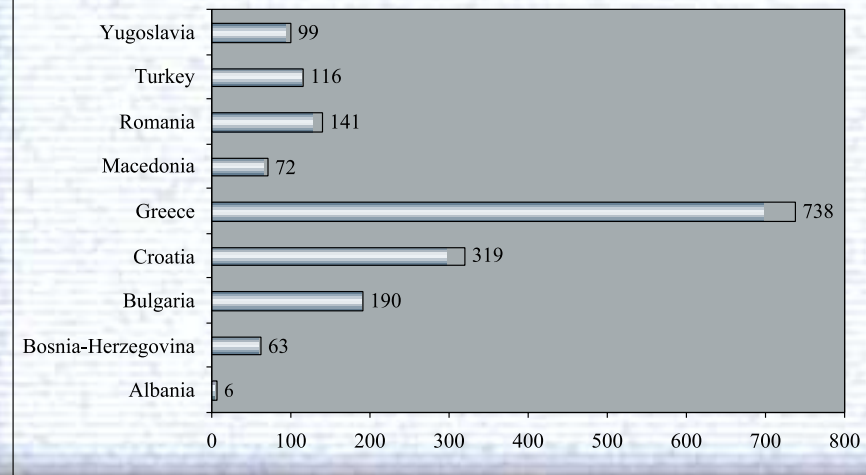
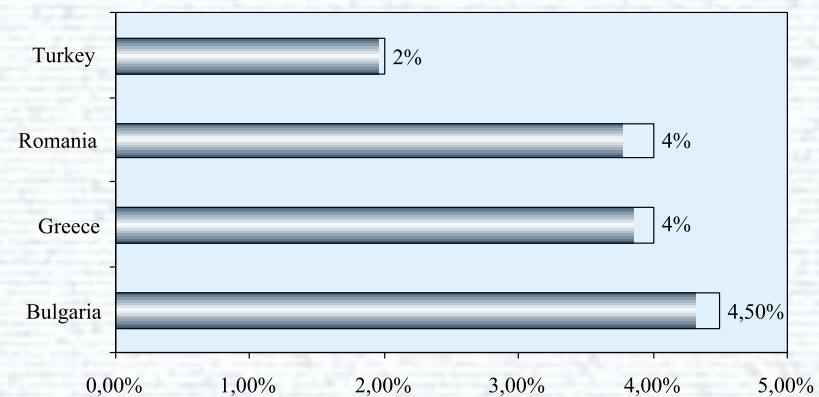
**Country Domains (number of hosts per 100,000 inhabitants)**

Chart 5:

**Population Online (as percentage of population)**


Sources: Wall Street Journal Europe and Vitosha Research, 1999

As a **public-private partnership**, the Internet Alliance tries to merge the interests of forward thinking information technology companies, NGOs, academic institutions and private citizens with government interests to support activities focusing on integrating the Internet and related technologies into the culture and character of society. This mandate is reflected in the institutional structure, which is modeled on the successful **COALITION 2000** anti-corruption project in which ARC Fund participates since 1998 (see chapter on **ANTI-CORRUPTION EFFORTS**). It builds on three core elements:


Policy Forum of leading public and private institutions and prominent personalities, which convenes annually to provide guidance and policy direction to the work of the Alliance;

Steering Committee, which coordinates the activities of the Alliance; and

Secretariat, which provides day-to-day operational management.



Such an institutional arrangement ensures openness and transparency of the Alliance, and provides a mechanism to incorporate the input and expertise of all major stakeholders - government and NGOs, business associations and international organizations - in a process of concern to the whole society. ARC Fund, as Secretariat of the Alliance, provides operational support to its projects and activities.



1999 was a formative year for the Internet Alliance, and several important events actually took place in the final quarter.

The Alliance partnered with the U.S. Global Technology Corps Initiative ([www.globaltechcorps.org](http://www.globaltechcorps.org)) to bring to Bulgaria the knowledge and expertise of the high technology community of the United States. GTC is a program within the U.S. State Department aimed at closing the "digital divide" between computer "haves" and "have-nots", and bridging the technology gap between developed and third world countries. It runs projects in different corners of the world - from web kiosks in Kosovo to Internet development in the Caribbean and modern journalism training in Central America. The program also involves helping countries develop plans for moving into the digital age.

In Bulgaria GTC offered the assistance of a technology expert in developing the policy framework for electronic commerce. The first step was to organize a visit for Dr. Philip Agre, associate professor of information at the University of California, Los Angeles and author of an influential list-serve, called Red Rock Eater. Dr. Agre, who holds a PhD in Computer Science from the Massachusetts Institute of Technology (MIT), has published and lectured extensively on topics ranging from the Internet and public discourse, the role of information technology (IT) in education, e-commerce and the evolution of market institutions, IT and institutional change, and the political value of the Internet. He visited Sofia for a week in October. His agenda included a series of talks at the University of National and World Economics and the Sofia University Business Club. He met with representatives of the coordinating council on information society development, which operates within the Council of Ministers, and spoke to Bulgarian policy makers, NGOs and media representatives during a Breakfast Meeting hosted by ARC Fund. The topic of his presentation was the democratic promise of technology and the role of Internet in society.



**DR. PHILIP AGRE, ASSOCIATE PROFESSOR OF INFORMATION AT UCLA, AND MS. DINKA DINKOVA, ARC FUND PROGRAM DIRECTOR, DURING A BREAKFAST MEETING WITH BULGARIAN POLICY-MAKERS, NGOS AND JOURNALISTS.**



Under the auspices of the Internet Alliance, on November 16 ARC Fund also hosted a roundtable discussion on the future of Bulgaria's telecommunications and information technologies market. The event brought together representatives of local telecom companies and officials from the government Committee on Posts and Telecommunications (CPT). It was prompted by a proposal to amend the existing telecom law, which private operators feared would only strengthen the monopoly position of the soon-to-be-privatized Bulgarian Telecommunications Company (BTC). The initiative came from a group of private telecom companies – mostly ISPs, cable and VSAT operators – who saw the Internet Alliance as an appropriate platform to voice the industry's concerns. The Alliance successfully played the role of a mediator between government and private business in an effort to reconcile their interests and work out a common solution.

By partnering in such activities, the Internet Alliance hopes to offer the means by which society can take advantage of the digital revolution to promote economic productivity, aid participation in the global economy and enhance its capacity to participate in the knowledge-based global revolution.

Internet for Sustainable Development

Since 1997, ARC Fund works with the Sustainable Development Network Program (SDNP) in a NGOs capacity-building project in Bulgaria.

SDNP - which is part of the United Nations Development Program - is a catalytic initiative to kick-start networking in developing countries and help people share information and expertise relevant to sustainable development to improve their lives. It currently offers assistance in establishing connectivity to national networks and the Internet, content aggregation and user training in over 80 countries worldwide

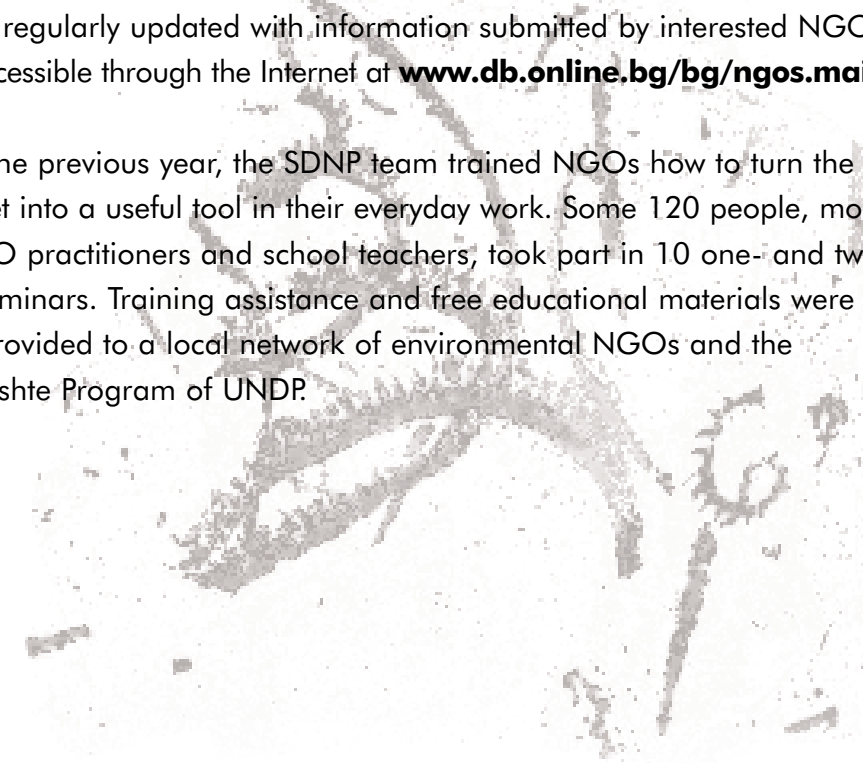
**([www3.undp.org](http://www3.undp.org)).**


ARC Fund implements the Bulgarian SDNP project in cooperation with the Open Society Foundation (OSF) and the UNDP mission in Sofia. The goal is to promote networking and access to information among local NGOs in order to enhance their capacity and influence as agents of change in Bulgarian society. In addition to NGOs, target groups include also the private sector, government departments and agencies, and local municipalities.

The main activity is the creation of a virtual network of government, civil society and private sector organizations, which share a common interest in promoting an open society, democratic reform, good governance and sustainable human development in Bulgaria. In 1999, the number of individuals and organizations connected to this network grew to 208. The project also developed webpages for 23 organizations and hosted them on its web server free of charge.

A comprehensive database of nearly 500 NGOs provided a convenient tool for locating organizations and identifying prospective Bulgarian partners for joint projects and initiatives. The database is fully searchable and is regularly updated with information submitted by interested NGOs. It is accessible through the Internet at **[www.db.online.bg/bg/ngos.main](http://www.db.online.bg/bg/ngos.main)**

As in the previous year, the SDNP team trained NGOs how to turn the Internet into a useful tool in their everyday work. Some 120 people, mostly NGO practitioners and school teachers, took part in 10 one- and two-day seminars. Training assistance and free educational materials were also provided to a local network of environmental NGOs and the Chitalishte Program of UNDP.



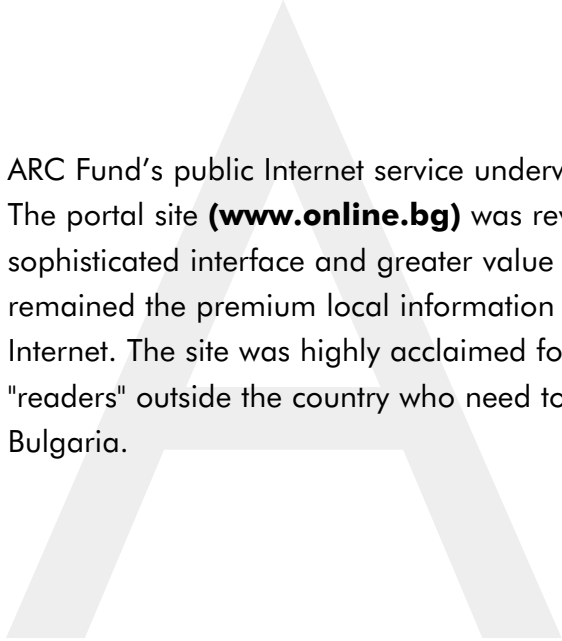


Participants learned how the Internet technology can improve communication, education and advocacy efforts, and how computers, and the Internet in general, can be used more effectively for fund-raising, recruiting and managing volunteers, getting out the message and delivering services.

Seminars were held in Sofia and other major cities across the country where OSF has regional clubs: Varna, Gabrovo, Plovdiv, and Stara Zagora. Local newspapers and radio stations were used to advertise the seminars, and similar information was distributed through the UNDP partners network.

In March, ARC Fund also hosted a specialized Internet training program for librarians. It was organized jointly with the Bulgarian National Library and the Dag Hammarskjöld Library of the UN. In three consecutive days, Ms. Dana Loytved - lecturer from the UN Library in New York - instructed participants how to use the United Nations documentation, particularly the research options available on the UN website. A group of 20 librarians and information specialists received in-depth training in the UN depository library system and various collections, publications and databases relating to international law, peacekeeping and human rights. Special hands-on sessions were devoted to the UN Internet services, such as the UN Treaty Database, the Economic and Social Development website, ReliefWeb and other useful electronic resources.

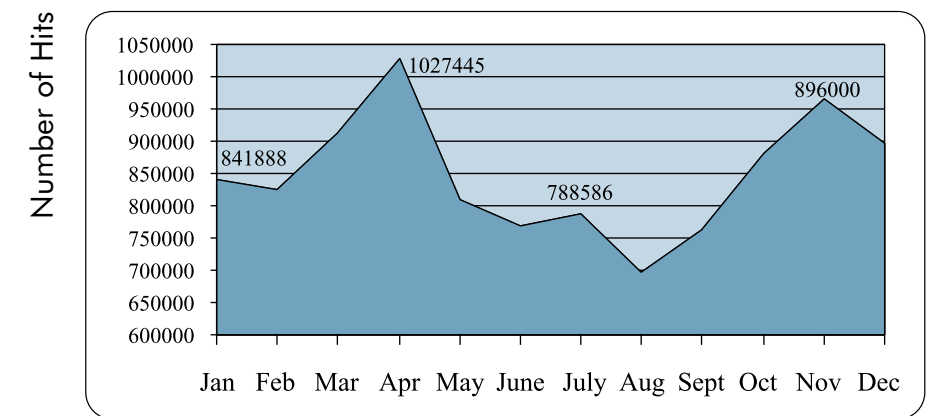
## Bulgaria Online



ARC Fund's public Internet service underwent a major overhaul in 1999. The portal site (**www.online.bg**) was revamped to provide a more sophisticated interface and greater value to the users. Bulgaria Online remained the premium local information source available on the Internet. The site was highly acclaimed for its content, particularly by "readers" outside the country who need to keep up on developments in Bulgaria.

Several new features were added during the year. A spotlight was introduced for topical issues, such as the Kosovo crisis, the local elections held in October, the US President visit to Bulgaria in November, and most recently Bulgaria's EU accession. The value of this content was recognized by international news leaders like CNN and Financial Times, which provided links to Bulgaria Online on their own websites.

Bulgaria Online: 1999 User Statistics



**Bulgarian Index**, the digest of multilingual media sources about the country, and **BG News** database were made fully searchable. Users can now explore a comprehensive archive of nearly 40,000 publications upon registration. 30,000 of these are in Bulgarian, 9,500 in English and about 500 in German and other West European languages. Interest in these services remained very high throughout the year. An average of 500 readers accessed these resources daily.

The business section was expanded to include an **Economic Bulletin** - a weekly digest of business and economic publications, and **Macroeconomic Overview** developed jointly with the government Agency for Economic Analyses and Forecasting. Data from the National Statistical Institute (NSI) and Bulgarian National Bank (BNB) provided a useful resource for investors and researchers.

A web directory of local sites was created in response to the growing interest in local content. Unlike other Bulgarian search engines, this one provides also a rating and brief review of the best local sites.

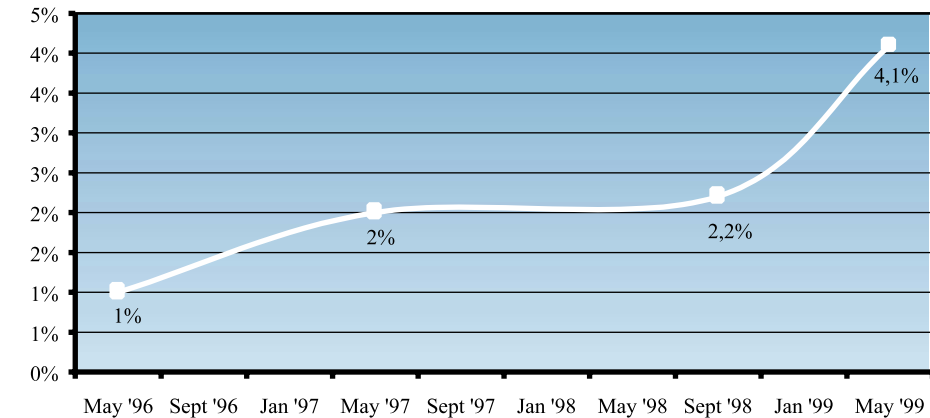
Bulgaria Online currently hosts the web pages of several government agencies and departments, including the Privatization Agency, State Telecom Commission, Securities and Stock Exchanges Commission, and Patent Office, as well as international organizations, such as the United Nations Development Program in Bulgaria, the World Bank country mission, and the Delegation of the European Commission in Sofia. Local NGO pages and content are also prominently featured.

## Internet Development in Bulgaria

The Internet took off in Bulgaria in 1991. Until the end of 1995, however, there were only two commercial companies providing Internet access, and most of those connected used the academic network. With 4% of the country's population presently online, Bulgaria is still lagging behind the EU levels. The sluggish economy and low disposable incomes of the population are the main obstacles to higher Internet penetration. Currently only 1% of the households have computers at home and most people access the Internet through their businesses.

After a slow start, and virtually no support from the state, the Internet began to win greater popularity in 1997. The economic stabilization and relatively easy procedures to start-up an Internet business contributed to an upsurge in the number of Internet service providers (ISPs). Currently the market environment is highly competitive, with more than 130 ISPs operating primarily on a regional level. Price affordability is the main competitive factor, but service quality and customer support are becoming increasingly important. In this highly fragmented market the largest ISP has less than 10% market share and even phone companies find it hard to compete. Dial-up access is the most popular service, while only large companies and organizations can afford leased lines. ISDN access and cable modem networking are offered with a limited success.

Internet Penetration in Bulgaria (as percentage of population)



Over the next couple of years, businesses will remain the driving force behind the growth of the Internet market in Bulgaria. The number of home subscribers will remain insignificant, while the state subsidized education system will lack finance to buy computers and upgrade Internet access. Despite a still unfavorable economic environment, the size of the web population in Bulgaria is forecast to grow at an annual rate of 50% until 2002.

The growing web population has boosted the development of local sites and content. It is estimated that by the end of 1999 there were 8,000 Bulgarian websites. Most of the newspapers and magazines have launched electronic editions. Several radio stations broadcast through the Internet. 1999 also marked the emergence of Bulgarian portals, which combine local search engines, web directories, indigenous content and various services, such as chat, online games, and free e-mail. The leading Bulgarian portal sites are believed to have about 15,000 unique visitors daily, an audience comparable to the readership of a small local daily newspaper.

## Regional IS Forum

After the success of the Regional Information Society Forum held in Sofia in September 1998, which attracted 200 policy makers, researchers and company representatives from eight countries, ARC Fund, together with its partners from Greece (IRC Help-Forward) and Romania (FEMIRC-Romania), and with the cooperation of the Association of IT companies of Northern Greece, organized on October 7-8 in Thessaloniki the **Second Regional Information Society Forum (RISF)**. The Forum took place within one of the largest IT events in Greece, the Infosystem'99.

The second RISF attempted to explore the regional perspectives of e-commerce, the challenges and the regulatory issues, from a political and business point of view. The topic was discussed by speakers from Bulgaria, Romania, Cyprus and Albania.

Mr. Grozdan Karadjov, Chairman of the Board of Directors of the Bulgarian Telecommunications Company presented the "Policy of the Bulgarian government for creation of a conducive communication framework for the development of e-commerce".


Dr. Ognian Shentov, Chairman of ARC Fund, talked about Bulgaria's efforts in "Shaping the institutional and legal framework of e-commerce". He presented the newly established Internet Alliance for Economic Development, and the work of the Task Force drafting Bulgaria's law on **ELECTRONIC DOCUMENT AND DIGITAL SIGNATURE**.

Other presentation topics included the "Competitiveness of the Romanian software industry" discussed by the President of the Romanian Association of Electronic and Software Industries, Mr. Borcea, the "New developments regarding the information society and technology in Albania" by Mr. Minxhozi, Director of the Scientific Research Directorate at the Albanian Ministry of Education and Science, and the "Development of information technology in Cyprus", by Mr. Agrotis, Director of the Department of Information Technology Services at the Ministry of Finance in Cyprus.

Over the past two years, the Information Society Forum has evolved into an important regional platform for discussing the concerted development and deployment of the information society in Southeast Europe. It has succeeded in attracting the participation of ministers and senior government officials, representatives of national and private telecom companies, the business communities, academics and non-governmental organizations from most countries in the region. To strengthen the regional nature of the initiative, the next Forum will be held in Romania later this year.

## IT and Democratic Transition

## Media Watch

The **Bulgarian Media Watch Society** was a two-year project, funded by the EU Phare Democracy Program, which concluded successfully in September 1999. ARC Fund coordinated an international team involving experts from Interights - the London-based international center for the protection of human rights, the Open Society Foundation-Sofia, the Legal Initiative for Training and Development (PIOR), the International Institute for Democracy in Strasbourg and the Trans-Atlantic Dialogue on Broadcasting and the Information Society.

The project's purpose was to encourage media pluralism in Bulgaria by opening up new channels for the free flow of ideas and information. In particular, it aimed at establishing a "virtual" community of journalists and legal practitioners based on the possibilities provided by the Internet technology.

Throughout 1999, the project team supported an **online discussion forum** where interested individuals expressed their views on the status of the country's media legislation, the rights and professional responsibilities of journalists, the relationship between the media and the judiciary, and the catalytic role of non-governmental and human rights organizations.

More traditional, complementary activities were designed to strengthen the project's impact on the target groups. An arrangement was made with the **KULTURA** weekly newspaper, which published summaries of the most interesting debates. Interviews by project team members for the national radio and publications in the local press fostered greater interest in the cyber-debate, and greater visibility of the project efforts.

A seminar on **Journalism and Violence** was organized by ARC Fund in mid-September. It gathered 20 media professionals and NGO representatives together with people from the government, Parliament and the judiciary. The moderators put forward a range of discussion topics, which allowed for a vigorous exchange of opinion on two aspects of journalism and violence.

The first session focused on journalists as targets and victims of violence. A background paper circulated among the participants offered a thorough factual review of the cases of violence against Bulgarian journalists in the past decade. The author, an investigative reporter with a Sofia-based newspaper, emphasized the link between violence and freedom of expression. In his view, media practitioners continue to be victims of threats, harassment, and physical assault. They are also subject to economic and political pressures, including politically motivated dismissals, misuse of existing laws, and further restrictions under new laws.

The second panel discussed the news coverage of crime and violence in Bulgarian mass media. The main question was whether the media maintain the highest professional and ethical standards when covering such cases. One of the strongest criticisms concerned the constant barrage of crime stories, which gives people the impression that violence is on the rise, that public authorities are powerless, and that minorities are likely to commit crimes. Some critics accused the media of having little concern for the impact of such news, and for being mostly preoccupied with building circulations and ratings.

In the wrap-up session, participants agreed on several important conclusions:

The state should strengthen the constitutional and legal guarantees of freedom of expression and of the press, and should revise those laws, regulations and measures that limit the exercise of this fundamental right.

Free access to information from public authorities must be guaranteed, and no journalist should be forced to reveal sources of information.

Sound journalistic practices are the most effective safeguards against government restrictions and pressures by special interest groups.

Non-partisan factual reporting and the highest professional standards are of critical importance when covering crime and violence.

With the increasing commercial and other pressures on the media, it is essential to maintain the credibility of the media by striving for quality of content.

Prominent experts from the judiciary, police, state prosecutor's office, media outlets and human rights NGOs joined as panelists and discussants. The following organizations provided valuable insight to the seminar debates: Legal Initiative for Training and Development (PIOR), Union of Bulgarian Journalists, Bulgarian Lawyers for Human Rights, Bulgarian Helsinki Committee, Center for Independent Journalism, Media Foundation-Varna, press office of the Ministry of Interior, specialized investigation service, and Sofia district court, among others.

These activities of the Media Watch project were complemented with two opinion surveys conducted in February and September to assess the public attitudes towards mass media in the country. They continued a monitoring process, initiated in the previous year, which examined the trends and dynamics of public trust in the media, identified some problem areas in the relationship between mass media and the institutions of the state, including the relationship between public and private media, and assessed the local media's capability of performing their public watch-dog functions. The survey results are available on the project's website at [www.mediator.online.bg](http://www.mediator.online.bg)

## Anti-Corruption Efforts

In 1999 ARC Fund continued its involvement in the **COALITION 2000** anti-corruption process, which began in the previous year. **COALITION 2000** is a local NGOs initiative to fight corruption in Bulgarian society.

ARC Fund's contribution to this initiative includes primarily the provision of IT support and communications expertise. It is responsible for maintaining the **COALITION 2000** website ([www.online.bg/coalition2000](http://www.online.bg/coalition2000)), its monthly electronic newsletter, and electronic notification system, which is used to disseminate information about **COALITION 2000** events, activities and publications.

ARC Fund was also involved in the development of an anti-corruption awareness campaign, which applied advanced social marketing techniques to the task of changing the local public's attitude towards corruption, and lowering its tolerance of corrupt behavior in society. The campaign involved a variety of communication tools, such as a **COALITION 2000** logo, posters and song, which created a distinct identity for the initiative. Several anti-corruption videos were produced after an extensive process of script selection and focus group pre-testing. One of them was aired on CNN in November. A rock concert was staged in Sofia in spring, particularly to attract the young people's attention to the problem. The anti-corruption idea was promoted at community round tables, awareness days and press conferences organized throughout the country. Different manifestations of corruption in Bulgarian society were exposed in a series of articles in the national and local press, and broadcasts in the electronic media.

In the last quarter of 1999 ARC Fund initiated two small-scale projects, which are implemented within the **COALITION 2000** framework. The first one is titled **OPEN MUNICIPALITIES NETWORK (OMEN)**, and entails the creation of an electronic network linking seven Bulgarian NGOs based in different cities around the country with the **COALITION 2000** Secretariat in Sofia. The NGOs had been selected to implement local anti-corruption projects funded by **COALITION 2000** through its small grants facility. The OMEN project focuses on transparency and accountability of local government, and maintains close partnerships with municipal authorities in the cities of Pleven, Shoumen, Varna, Bourgas, Smolyan, Plovdiv, Haskovo and Vratza. It also provides an open communication channel through which local partners can exchange information among themselves, and post interesting local content on the **COALITION 2000** website, including information from the municipal authorities, case studies of local anti-corruption efforts, and monthly "transparency reports" from the local civic observers.



The second project has led to the development of a register of corruption investigations in Bulgarian mass media. The objective is to track the evolution of major corruption-related stories in the country's economic, political and social life. A second task is also to study the changes in public opinion, and the reactions of implicated individuals and public authorities in each particular case. Such data serve as indicators of the degree of intolerance to corrupt practices in Bulgarian society and the attitudes of the ruling political party to problems raised in the mass media. Each record in the media anti-corruption register is complemented with a chart revealing the monthly distribution of the number of newspaper publications on a particular case. The chart illustrates the "mortality of newspaper disclosures."

As part of its responsibilities under the **COALITION 2000** effort, ARC Fund is also preparing a reader addressing the potential of information technology to counter corruption at national and local government level.

## IT for Transparent Local Governments

Already in 1998, ARC Fund had initiated a strategic partnership with the City of Sofia to design innovative IT-based practices in public administration. At the very end of 1999 the first successful project developed by ARC Fund on behalf of the Municipality of Sofia was approved for funding by the infoDev Program of the World Bank. The Information for Development Program (infoDev) is a global grant program managed by the World Bank to promote innovative projects on the use of information and communication technologies (ICTs) for economic and social development ([www.infodev.org](http://www.infodev.org)).

The project tendered by ARC Fund and the City of Sofia is called "Enhancing Transparency in Local Government" and has two components:

**Improving internal efficiency** by developing a **MUNICIPAL GOVERNMENT MANAGEMENT INFORMATION SYSTEM (MGMIS)**. The MGMIS will link in a single information network different levels of operation of the municipal government: City Mayor, Municipal Council, municipal administration departments, 24 district mayors and their administrations.

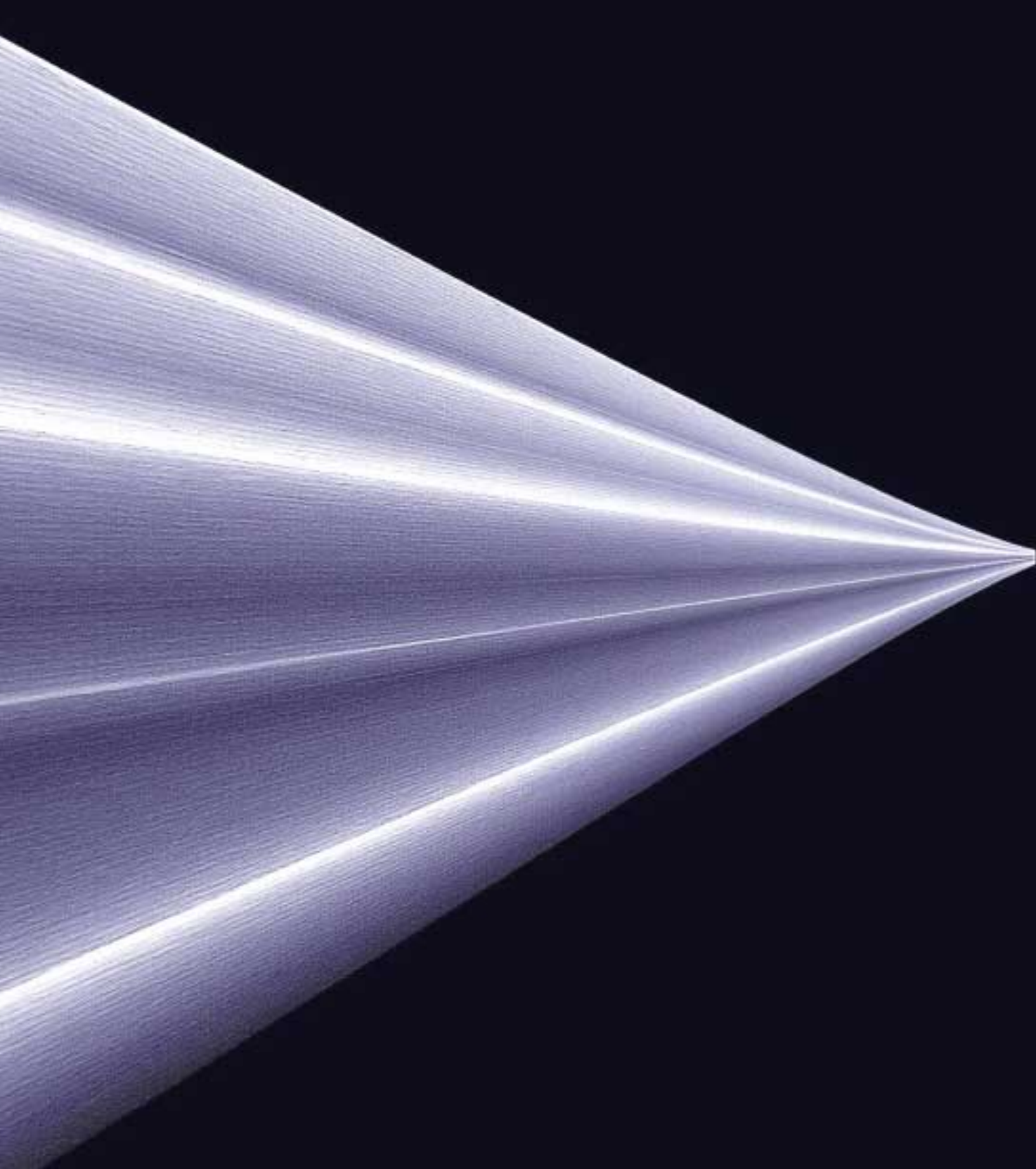
The MGMIS is perceived as part of a wider administrative modernization program, and a primary catalyst for decentralization of government and effective municipal management. The system will host information about local government taxation, privatization of real estate property, social security, and municipal infrastructure projects. The availability of this information channel, and the accessibility and exchange of information resources among different levels of operation of the local government will result in improved municipal management - better coordination, communication, monitoring - and better service to the citizens.

**Adding value to customers** by ensuring better access to service delivery. A network of public terminals located at the city library and community centers will provide real-time access by citizens to part of the MGMIS resources. Special web pages will provide useful community information. This is expected to have a direct and immediate impact in terms of improving the transparency and public accountability of the local government, improving its credibility and public perception.

The project's implementation, which starts in early 2000, is divided in two stages. The first one involves a feasibility study and pilot implementation of a Sofia MGMS. This part is funded through the infoDev Program and entails a comprehensive survey and inventory of existing information resources and databanks at the Municipality of Sofia. An MGMS prototype will be developed, installed and tested, and **TRAINING PROGRAMS** will be designed for local government officials.

At the next stage, part of the MGMS should be made accessible to a wider range of users, including major departments in the structure of the Municipality dealing with municipal property, transport, construction, finance, social welfare, architecture and urban planning, as well as the Municipal Privatization Agency, Municipal Bank, and Municipal Insurance Company. The provision of services on request to economic agents and citizens is also envisaged in order to achieve future sustainability of the project.

The infoDev project is the first in a series of initiatives through which ARC Fund hopes to assist local government authorities in Bulgaria in effectively managing the introduction of technology-enabled practices, and taking advantage of the significant opportunities for improvement presented to them by the dynamic development of information and communications technologies.



**Innovation and Technology Transfer**  
FELLOW MEMBER TO THE EUROPEAN COMMUNITY NETWORK  
OF INNOVATION RELAY CENTRES (FEMIRC-BULGARIA)

The Bulgarian Fellow Member to the European Community Innovation Relay Centres (FEMIRC-Bulgaria), hosted by ARC Fund, successfully completed its third consecutive year of operation. FEMIRC-Bulgaria is part of a Europe-wide network of 63 Innovation Relay Centres (IRC Network) whose goal is to promote innovation and encourage the exchange of scientific research results among organizations across Europe.

HTTP://WWW.CORDIS.LU/IRC/SRC/ABOUT.HTM

The screenshot shows a Netscape browser window displaying the website for Innovation Relay Centres. The browser's address bar shows the URL: http://www.cordis.lu/irc/src/about.htm. The website features a purple header with the 'CORDIS' logo on the left and the 'Innovation Relay Centres' logo on the right. A navigation menu on the left lists various sections, with 'About us' currently selected. The main content area is titled 'About the Innovation Relay Centres' and contains a list of links: Introduction, Who are the IRCs?, What services do IRCs provide?, IRC Network Tools, Tracking the IRC Network's performance, Who to Contact, and The Innovation Relay Centre Network Calendar of Events. Below this list is an 'Introduction' section with the following text:

**Strengthening the technology and innovation base of Europe's small and medium-sized companies**

Since their creation in 1995, the Innovation Relay Centres (IRCs) have become a leading European network for the promotion of technology partnerships and transfer between small and medium-sized companies.

IRCs help local companies access the European technology market by promoting their technologies across Europe (outward technology transfer) and by identifying and importing technological solutions (inward technology transfer). Today, there are 53 Relay Centres in the European Union, Iceland, Norway and Israel, with further 10 Fellow Members in Central and Eastern Europe.

Pursuing its mission to facilitate the technological co-operation among research organizations and industrial enterprises, and to contribute to the competitiveness of the Bulgarian industry through transfer of technologies and know-how from the European programs for research and technological development (RTD), FEMIRC-Bulgaria has gained a strong reputation among the Bulgarian academic and business communities of being the major information broker in the country in the field of EU research and development programs, innovation and technology transfer matters.

Throughout the past three years, the role of FEMIRC-Bulgaria has gradually evolved from information dissemination on EU research programs to the first technology audits actually performed in Bulgarian industrial SMEs. Currently the FEMIRC is considered a one-stop-shop for technology transfer and innovation services to Bulgarian SMEs, universities and research institutes. It has developed an insight into their abilities, potential, technological needs and problems, while accumulating expertise on EU-RTD matters.

With its two regional sub-nodes in Plovdiv and Varna operating since 1998, and the network of local offices of its consortium partners, including the Ministry of Industry, the Bulgarian Academy of Sciences, the Bulgarian Industrial Association, and the Agency for Economic Analyses and Forecasting, FEMIRC-Bulgaria ensures close and easy interaction with the small business community and the technology sector on a local level.

Under a "twinning" mechanism FEMIRC-Bulgaria continued to work closely with the Innovation Relay Centre Help-Forward of Greece. Initially intended to streamline the operational tools and procedures adopted by the Bulgarian FEMIRC, and to facilitate its successful integration into the Community network of IRCs, this collaboration matured and developed far beyond its original goal. A technology transfer agreement signed between a Greek and a Bulgarian IT company, and the subsequent creation of a new company in Bulgaria, became a major success story during 1999, which was advertised throughout the IRC Network. The initial contact between the two companies had been established during the Information and Communication Technology Days held in September 1998 in Sofia, and co-organized by IRC Help Forward and FEMIRC-Bulgaria.

## The IRC Network

The network of Innovation Relay Centres (IRC) is run by the European Commission's Innovation and SMEs Program. It spans the EU member states, as well as Iceland, Norway, Switzerland and Israel, with "twinning" arrangements extending it to ten Central and East European Countries (Fellow Members to the Innovation Relay Centres - FEMIRCs).

The goal of the IRC Network is to promote innovation, encourage exchange of research results between organizations across Europe, and provide advice, consulting and training support which meets the specific needs of each company and their local industrial situation.

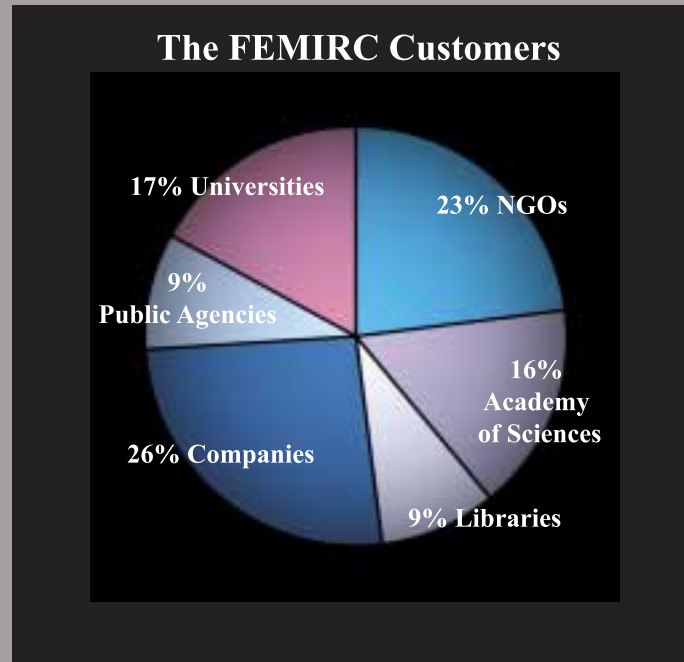
The IRC Network is a service for companies, especially for small and medium-sized enterprises (SMEs). Universities and research institutes may also benefit from its services for transferring results to industry. Each centre is staffed by a team of professionals with backgrounds in research, business and industry.

The first priority is to help companies identify technology needs, locate suitable technologies to match these needs, assist them in technology transfer negotiations and promote new technological development in the various regions through inward technology transfer. In addition, local industry is helped in the identification of suitable technologies eligible for transfer to other regions or industries thus building the basis for outward technology transfer. To do this, the IRCs encourage the circulation of European research results in each local industrial community and offer training and consulting services at the request of local companies.

The IRCs are set up as independent business and technology consulting organizations. Each centre has been selected through an open competition as the best office in its region.

## Technology Transfer

The FEMIRC activities in 1999 focused on technology transfer and innovation related services. The main task for 1999 was to help local companies identify their technology needs through technology audits, and find suitable technologies to match these needs, assist them in technology transfer negotiations, and promote industrial innovation in Bulgaria through inward technology transfers. In addition, FEMIRC–Bulgaria helped a number of local companies in promoting their advanced technologies to other European countries and industries through the IRC Network.



The most important activities supporting innovation and technology transfer in 1999 included:

**Organization of a Bulgarian mission to the "Emerging Technologies in Non-Destructive Testing (NDT)" technology brokerage and business partnership event**

The event was held in Athens, Greece on May 24-26. It was co-organized by IRC-Help Forward, the Free University of Brussels (VUB), the University of Patras, the Hellenic Society of NDT (HSNT), the Belgian Society of NDT (BANT), and the Italian Society of NDT (AIPnD). Companies involved in the field and having interest in NDT technologies and products attended the event and contributed technology offers and requests.

FEMIRC–Bulgaria organized a trade mission of five Bulgarian companies and one research organization. A FEMIRC representative attended and facilitated the bilateral meetings of the Bulgarian participants. A total of 27 official meetings were held. As a result of the meetings, a Greek and a Bulgarian company started negotiations for joint activities in Bulgaria.

### **Technology brokerage and business partnership event for information and communication technology (ICT) companies**

The event was held in Thessaloniki, Greece, on October 7-9, 1999, and was co-organized by IRC Help-Forward and its twin partners FEMIRC–Bulgaria and FEMIRC–Romania, in co-operation with the Association of IT companies of Northern Greece. It was a follow-up event to the Information and Communication Technology Days held in Sofia a year earlier.

The technology brokerage and business partnership event in Thessaloniki attracted 62 companies, including 32 from Greece, 13 from Bulgaria, 9 from Romania, 5 from Germany, 2 from Cyprus and one from the UK. Forty-eight of these were represented by senior management officials.

The Companies Catalogue (Portfolio of the Event) included the companies' profiles and the type of cooperation sought. The Catalogue was available prior to the event in electronic and print format, and was disseminated in advance. Company participation covered the fields of information technologies, electronics, microelectronics, information processing, information systems, telecommunications, automation/robotics, etc.

More than 210 bilateral meetings were recorded and many more informal ones took place during the two-day event. The event was an important opportunity for Bulgarian IT companies to establish direct contact with IT businesses from other countries in Southeast Europe. Several partnership agreements are currently under negotiation.

### Complementary activities to support services directly related to technology transfer

Recognizing that the availability of capital is a powerful catalyst of the technology transfer process, FEMIRC-Bulgaria started to investigate the availability of financial sources to support international technology transfer projects. Different lending schemes and credit lines were regularly publicized in the FEMIRC's quarterly bulletin, called VESTI, and its Internet site ([www.femirc.bg](http://www.femirc.bg)).

To improve the local businesses' understanding of the complexity of innovation FEMIRC-Bulgaria organized two seminars on business innovation strategies, which were held in the cities of Varna (in June) and Veliko Turnovo (in November). A total of 50 companies participated in both events. The topics covered in the seminars included innovation policy of the company and technology auditing, modern information services, legal issues of the international technology transfer and credit reports for companies, and the ISO 9000 certification as a necessary step for collaboration with European business partners.

During the year, FEMIRC-Bulgaria received over 800 technology offers and requests from the IRC Network, 436 of which were published in the VESTI bulletin and the FEMIRC web site. These demands were carefully assessed, matched against the FEMIRC's own database of partner profiles, and followed-upon in the case of interest from potential Bulgarian partners.

The FEMIRC staff visited more than 60 industrial companies, of which 24 were audited to evaluate their demand for technological collaboration with European partners and their needs for new production technologies.

The growing number of companies visiting the FEMIRC office was a positive sign of the growing interest in the services it offered to the small business community. The number of companies visiting the FEMIRC offices in the country grew more than three-fold in comparison with 1998. The subscribers to the VESTI bulletin increased by 61% in 1999.

Information and Consultancy on the Fifth Framework Programme (FP5)  
of the European Union for Research, Development and Demonstration

In 1999, FEMIRC-Bulgaria continued its activities for promoting the European Union 5th Framework Programme for Research and Development. To respond to the high demand for information on the opportunities for participation in the open calls and tenders resulting from Bulgaria's full association to the program, FEMIRC-Bulgaria made use of a number of information dissemination instruments in order to reach as many interested parties as possible.

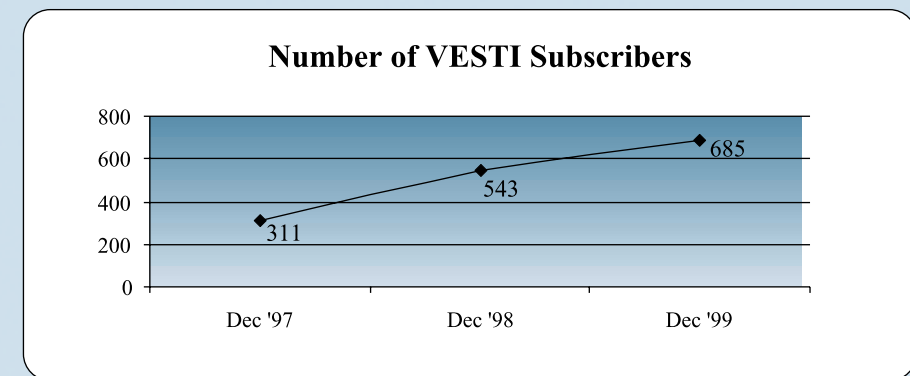
### Information days and seminars


A total of nine information days and three training seminars on FP5 were organized in the major Bulgarian cities, industrial and university centers – Sofia, Bourgas, Rousse, Plovdiv, Veliko Turnovo, and Varna. More than 600 participants attended. The FEMIRC staff paid particular attention to the presentation of the "Innovation and SMEs" Programme of FP5 since 1999 was the first year in which Bulgarian SMEs could fully participate in the program.

In March, FEMIRC-Bulgaria contributed to the EU's **INTERNET FIESTA**, a sum of special events which took place all over Europe. Two events were organized in Sofia and Plovdiv. The aim was to promote the online information services and databases of the European Union, as well as its programs supporting the deployment of the information society. The events were organized with the support of the local Delegation of the European Commission.

### VESTI bulletin, flash bulletins and short guides

The VESTI bulletin published background information on FP5 programs, articles on technology transfer, opportunities to participate in calls for proposals, funding schemes, upcoming events, as well as partner searches, and technology offers and requests received through the IRC Network. Five issues of the bulletin were released in 1999 and distributed to 1,000 recipients, including companies, libraries, university departments, research institutes of the Bulgarian Academy of Science, industrial chambers, government departments and agencies, and NGOs.





Two Flash Bulletins were published on specific EU initiatives: i.e. EuroPrix'99 and IST Prize'99. Flash bulletins were distributed through targeted mailing to more than 200 research organizations and SMEs.

Two Short Guides on FP5 and the Horizontal Program on Innovation and SMEs were also issued, which contained specific guidelines and advises for successful participation by Bulgarian researchers.

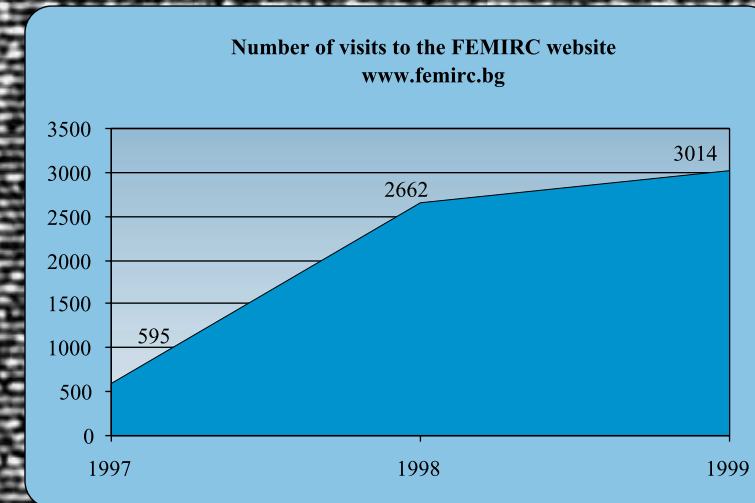


### **Direct assistance**

During 1999, the FEMIRC staff assisted around 200 clients in identifying appropriate programs, and finding suitable partners for the development and submission of joint proposals for research projects under FP5. A special focus during the assistance sessions was put on proposal budgeting. More than 350 partner searches coming from the IRC network were disseminated to 685 research organizations, university teams and companies. In addition FEMIRC-Bulgaria disseminated 15 Bulgarian requests for partners to form consortia for joint proposals. As a result of this activity, 23 contacts with foreign research teams were established, and seven joint proposals with European partners were submitted to the European Commission.

### **FEMIRC website**

The site was significantly expanded and enriched in content, especially in its Bulgarian version. It included information on the profile and activities of FEMIRC-Bulgaria, the range of services offered, events organized, articles on EC policies, all issues of the VESTI Bulletin, partner searches for participation in R&D programs, as well as technology offers and requests coming from the IRC Network. Useful links with other IRCs and the European Union webpages on R&D and Innovation were incorporated. The site recorded an average of 300 visits per month.



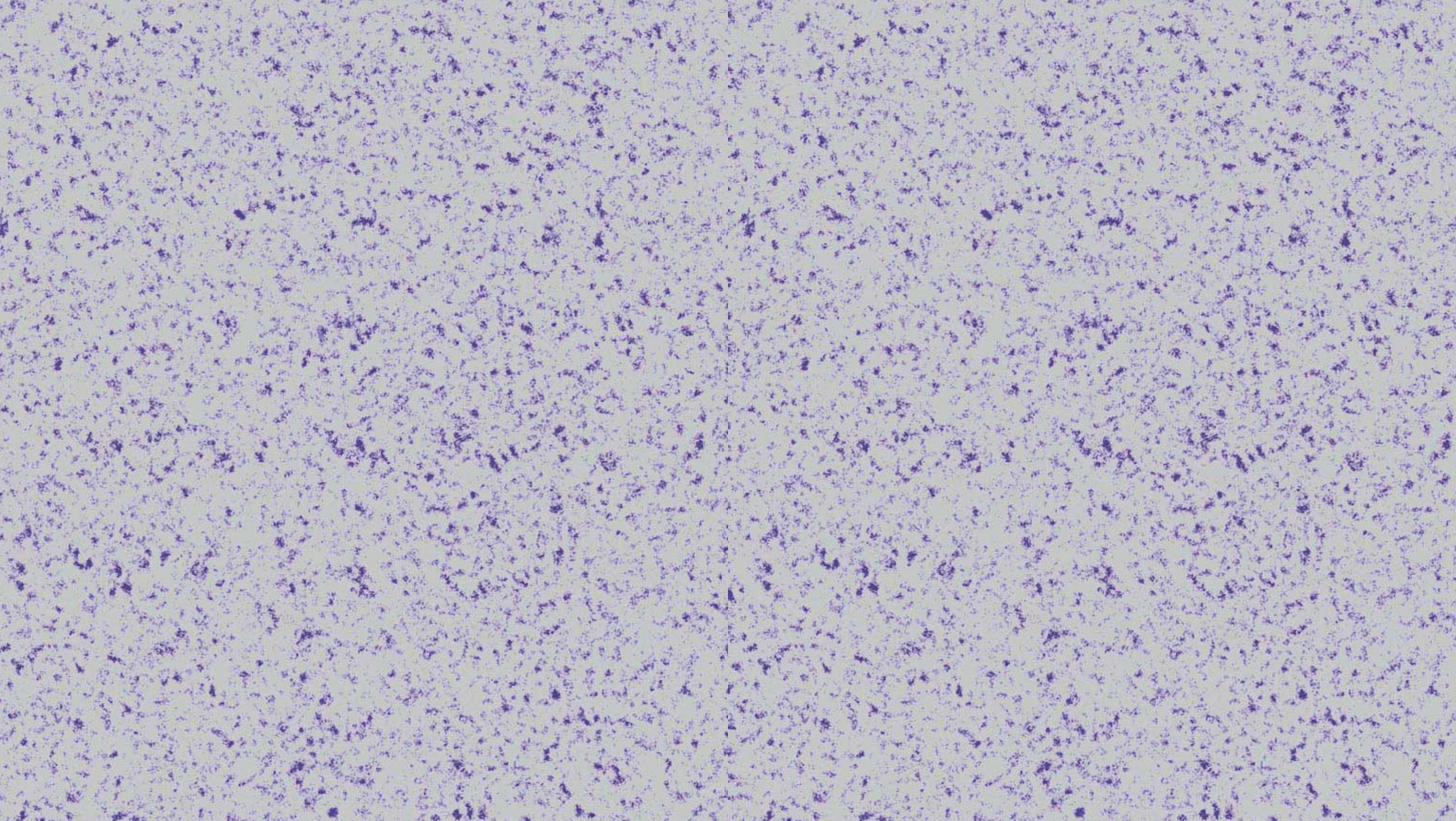
## National Contact Point for Innovation and SMEs

In the spring of 1999, ARC Fund - as the host organization of FEMIRC-Bulgaria – was nominated to become a National Contact Point (NCP) for the SMEs and Innovation Programme, giving it a further responsibility in the promotion of Bulgarian SME's participation in FP5.

The NCP provides value-added to the role of FEMIRC–Bulgaria, expanding its tasks to support Bulgarian SMEs wishing to obtain information, advice or assistance in their preparation of European R&D proposals. A special guide on the SME specific measures, i.e. exploratory awards and CRAFT projects, designed by the Innovation and SMEs program, was published in the third issue of the VESTI bulletin. A total of 41 partner searches for CRAFT projects coming from the European Network of NCPs were published in VESTI and on the FEMIRC web site. Six Bulgarian SMEs responded and established contacts with European partners.

**MS. ZOYA DAMIANOVA, COORDINATOR (MIDDLE), MS. ANNA DINIDOU, DEVELOPMENT MANAGER (RIGHT), AND MS. STELLA DIMITROVA, INFORMATION OFFICER, DURING A FEMIRC STAFF MEETING.**





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Executive Director

**Dinka Dinkova**  
Program Director

**Nickolay Badinski**  
Technical Director

**Zoya Damianova**  
FEMIRC Coordinator

**Christina Nedeva**  
FEMIRC Information Officer

**Stella Dimitrova**  
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FEMIRC Consultant

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Relay Center Help-Forward,  
Greece

**Stefan Sofianski**

Mayor of the City of Sofia and  
former Prime Minister of Bulgaria

## Partners and Supporters

Albanian Center for Economic Research

ARD, Germany

BIT - Bureau for International Research and Technology Cooperation, Austria

British Association for Central and Eastern Europe

Center for Democracy and Technology, Washington, D.C.

Center for International Private Enterprise, Washington, D.C.

CNIKA AD - Technology Center, Bulgaria

Euro-Info Centres in Bulgaria

ForthNet S.A., Greece

Freedom Forum

Hanns-Seidel-Stiftung, Germany

INCO-Copernicus Program of the European Communities

InfoDev Program of the World Bank

Innovation Program of the European Communities

Innovation Relay Centre Help-Forward, Greece

Interights, London

International Broadcasting Audience Research, BBC World Service

International Communication Studies Program, Center for Strategic and International Studies, Washington, D.C.

International Institute for Communications, London

International Institute for Democracy, Strasbourg

National Association of Broadcasters, Washington, D.C.

National Telecommunications and Information Administration, U.S. Department of Commerce

NATO Office of Research

New Bulgarian University Department of Telecommunications

Open Society Foundation - Sofia

Phare Democracy Program of the European Communities

Phare Partnership Program of the European Communities

SEPE - Federation of Hellenic Information Technology Enterprises, Greece

Social Policy Research Unit (SPRU), University of Sussex

Südost-Institut, Germany

Trans-Atlantic Dialogue on Broadcasting and the Information Society

TTI Magdeburg GmbH - Technology Transfer and Promotion of Innovation, Germany

U.S. Agency of International Development

U.S. Global Technology Corps Initiative

U.S. Telecommunications Training Institute

United Nations Development Programme

**ARC Fund  
Organization's Financial Statements  
For the period ended 31 December 1999  
With Independent Auditors' Report Thereon**

**Income and expenditure account for the year ended 31 December 1999**

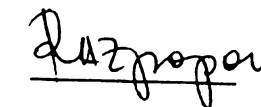
In BGN	Note	31 December 1999	31 December 1998
Revenue from grants, contributions and projects	2	218,236	728,168
Expenses on grants, contributions and projects	3	(197,183)	(696,362)
General and administrative expenses		(2,298)	(6,197)
<b>Gross excess of revenue over expenditure</b>		<b>18,755</b>	<b>25,609</b>
Foreign exchange gains/(loss) – net	4	(32,362)	53,238
Interest income		1,393	730
Other financial expenses		(6,468)	(12,144)
Other income	5	66,500	136
Write down of investments		-	(571)
Provisions		(3,913)	-
<b>Net excess of revenue over expenditure</b>		<b>43,905</b>	<b>66,998</b>
Loss on net monetary position		-	(3,954)
<b>Excess of revenue over expenditure for the year</b>		<b>43,905</b>	<b>63,044</b>
Accumulated excess of revenue over expenditure brought forward		286,107	223,063
<b>Unrestricted fund balances at 31 December 1999</b>		<b>330,012</b>	<b>286,107</b>

The accompanying notes on pages 5 to 13 form an integral part of these financial statements.

**Balance sheet as at 31 December 1999**

In BGN	Note	31 December 1999	31 December 1998
Property, plant and equipment	6	345,668	413,979
Intangible fixed assets	7	3,741	4,671
Investments	8	35,780	35,780
<b>Non-current assets</b>		<b>385,189</b>	<b>454,430</b>
Inventories		44	23
Receivables	9	167,824	218,002
Cash and cash equivalents	10	108,302	40,187
Deferred expenses	11	332,271	10,785
<b>Current Assets</b>		<b>608,441</b>	<b>268,997</b>
<b>Total Assets</b>		<b>993,630</b>	<b>723,427</b>
<b>Liabilities</b>			
Payables	12	147,455	209,078
Deferred revenue	13	516,163	228,242
<b>Total Liabilities</b>		<b>663,618</b>	<b>437,320</b>
<b>Unrestricted fund balance</b>	14	<b>330,012</b>	<b>286,107</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 5 to 13.



Inko Razpopov  
Executive Director

**Cash flow statement for the year ended 31 December 1999**

In BGN	31 December 1999
<b>OPERATING ACTIVITIES</b>	Note
Gross excess of revenue over expenditure	43,905
Adjustments for:	
Depreciation	58,162
Foreign exchange loss from revaluation	9,105
Increase/ (decrease) of provisions	3,913
<b>Cash flow from operating activities before changes in working capital</b>	<b>115,085</b>
(Increase)/ decrease in assets from operating activities	(275,538)
Increase/ (decrease) liabilities from operating activities	264,854
<b>Cash flows from operating activities</b>	<b>104,401</b>
<b>INVESTING ACTIVITIES</b>	
Purchase of tangible fixed assets	(36,286)
<b>Net cash used in investing activities</b>	<b>(36,286)</b>
<b>Net increase in cash and cash equivalents</b>	<b>68,115</b>
Cash and cash equivalents at beginning of year	10 40,187
<b>Cash and cash equivalents at end of year</b>	<b>10 108,302</b>

A comparative cashflow statement for the year ended 31 December 1998 is not presented due to the fact that the financial statements for the period ended 31 December 1997 have not been audited by KPMG Bulgaria.

**I. 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 the following into consideration that during the last several years the fund has operated in a hyper-inflationary environment. The officially published inflation indices are for 1996, 1997, 1998 and 1999 are 410.8%, 678.6%, 101% and 106,4% respectively. Hyperinflation adjustments have been made in order to show the effect of inflation on the purchasing power of the equity interest as at 31 December 1998. Due to the insignificant inflation growth in the financial year 1999, the income and expenditure account for that year and the statements of net assets as at 31 December 1999 have not been adjusted according the official inflation index.

**(c) Foreign currencies**

Monetary assets in foreign currencies have been revalued on a monthly basis. As a result foreign exchange differences have arisen. Deferred revenue and other liabilities denominated in foreign currencies are carried at their historical values. The BNB official exchange rates of the USD as at 31 December 1999 and the average for 1999 are 1.95 BGN/USD and 1.84 BGN/USD respectively.

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

Tangible and intangible fixed assets were inflated for the year ended 31 December 1998 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 for the year ended 31 December 1999 have not been inflated. Their inflated values as at 31 December 1998 have been depreciated using the straight line method. The inflation rate for the twelve months ended 31 December 1999 of 6.2 % is considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999 have been made.

The rates of depreciation used are as follows:

Buildings	4%
Machines and equipment	20%,25%
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 BGN are to be translated into the respective foreign currency. The respective amount of BGN 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 BGN. Expenses as revalued in foreign currency correspond to the revenues in the same foreign currency.

**(g) Cash and cash equivalents**

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

**(h) 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**

In BGN	31 December 1999	31 December 1998
IRC Project	91,656	265,808
Phare Partnership Project	-	225,462
Phare Democracy Project	-	108,021
Income from financing for NCA	47,365	30,392
Other projects	79,215	98,485
	<u><b>218,236</b></u>	<u><b>728,168</b></u>

**3. EXPENSES ON GRANTS, CONTRIBUTIONS AND PROJECTS**

In BGN	31 December 1999	31 December 1998
Salaries and benefits	51,569	336,716
Hired services	24,756	184,400
Depreciation	105,527	87,319
Supplies and consumable	1,916	26,281
Other expenses	13,415	61,646
	<u><b>197,183</b></u>	<u><b>696,362</b></u>

**4 FOREIGN EXCHANGE LOSS**

In BGN	31 December 1999	31 December 1998
Exchange rate gains from operations	6,052	72,278
Exchange rate losses from operations	(38,414)	(19,040)
	<u><b>(32,362)</b></u>	<u><b>53,238</b></u>

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.

**5. OTHER INCOME**

In BGN	31 December 1999	31 December 1998
Income from limited property right of use	66,300	-
Other	200	136
	<u>66,500</u>	<u>136</u>

Registered rights of using real estates of legal persons against payment have been recorded as other income.

**6. PROPERTY, PLANT AND EQUIPMENT**

In BGN	Buildings	Plant & equipment	Vehicles	Fixtures & fittings	Total
<b>Cost or valuation</b>					
At 1 January 1999	158,117	407,150	8,280	886	574,433
Additions	-	36,286	-	-	36,286
Disposals	-	-	(431)	-	(431)
<b>At 31 December 1999</b>	<u>158,117</u>	<u>443,436</u>	<u>7,849</u>	<u>886</u>	<u>610,288</u>
<b>Accumulated depreciation</b>					
At 1 January 1999	1,410	154,885	3,919	240	160,454
Disposals	-	-	(431)	-	(431)
Charge for year	3,491	99,279	1,606	221	104,597
<b>At 31 December 1999</b>	<u>4,901</u>	<u>254,164</u>	<u>5,094</u>	<u>461</u>	<u>264,620</u>
<b>Net book value as at 31 December 1999</b>	<u>153,216</u>	<u>189,272</u>	<u>2,755</u>	<u>425</u>	<u>345,668</u>
<b>Net book value as at 31 December 1998</b>	<u>156,707</u>	<u>252,265</u>	<u>4,361</u>	<u>646</u>	<u>413,979</u>

**7. INTANGIBLE FIXED ASSETS**

In BGN	Software	Patents and licenses	Total
<b>Cost or valuation</b>			
At 1 January 1999	4,952	825	5,777
<b>Additions</b>			
<b>At 31 December 1999</b>	<u>4,952</u>	<u>825</u>	<u>5,777</u>
<b>Accumulated depreciation</b>			
At 1 January 1999	584	522	1,106
Charge for year	897	33	930
<b>At 31 December 1999</b>	<u>1,481</u>	<u>555</u>	<u>2,036</u>
<b>Net book value as at 31 December 1999</b>	<u>3,471</u>	<u>270</u>	<u>3,741</u>
<b>Net book value as at 31 December 1998</b>	<u>4,368</u>	<u>303</u>	<u>4,671</u>

**8. INVESTMENTS**

In BGN	31 December 1999	31 December 1998
Agency Atlantic EOOD	5,000	5,000
Radio Atlantic Varna EOOD	20,780	20,780
Atlantic Plovdiv EOOD	5,000	5,000
Atlantic Pleven EOOD	5,000	5,000
	<u>35,780</u>	<u>35,780</u>

ARC Fund is a not-profit organization which has invested in four radio stations in prior accounting periods. During the financial 1999 the subsidiaries that perform business activities in line with the overall goals and the mission of ARC Fund have received no further financial support. Thus if the separate financial statements of the subsidiaries are included in the parent's financial statements, the latter will not give a true and fair presentation of the activities of ARC Fund.

**9. RECEIVABLES**

In BGN	31 December 1999	31 December 1998
<b>Completed Projects</b>	<b>93,614</b>	<b>204,008</b>
IRC Project	91,656	155,680
Phare Partnership Project	-	46,701
Other projects	1,958	1,627
Other receivables	78,123	13,994
Provisions	(3,913)	-
	<u><b>167,824</b></u>	<u><b>218,002</b></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.

**10. CASH AND CASH EQUIVALENTS**

In BGN	31 December 1999	31 December 1998
In local currency	44,824	1,788
In foreign currency	61,585	32,445
<b>At bank</b>	<b>106,409</b>	<b>34,233</b>
In local currency	592	3,392
In foreign currency	1,301	2,562
<b>In hand</b>	<b>1,893</b>	<b>5,954</b>
	<u><b>108,302</b></u>	<u><b>40,187</b></u>

**11. DEFERRED EXPENSES**

In BGN	31 December 1999	31 December 1998
Phare Democracy Project	222,868	1,825
IRC Project	54,656	-
Other projects	54,747	8,960
	<u><b>332,271</b></u>	<u><b>10,785</b></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 arise.

**12. PAYABLES**

In BGN	31 December 1999	31 December 1998
Payables to the budget	1,983	9,144
Salaries and social security payables	9,927	18,309
Short term loan from CSD	75,612	134,008
Payables to subcontractors on projects	18,330	-
Payables on deliveries of non-current assets	22,281	-
Other payables	19,322	47,617
	<u><b>147,455</b></u>	<u><b>209,078</b></u>

**13. DEFERRED REVENUE**

In BGN	31 December 1999	31 December 1998
Phare Democracy Project	174,546	26,925
Coalition 2000 Project	67,173	-
OSF	60,096	-
IMF	26,514	22,813
OSF (ICC)	24,332	21,337
Center for Economic Development	17,415	-
<b>For project activities</b>	<b>370,076</b>	<b>71,075</b>
<b>For non-current assets</b>	<b>146,087</b>	<b>157,167</b>
	<u><b>516,163</b></u>	<u><b>228,242</b></u>

**14. UNRESTRICTED FUND BALANCE**

In BGN	31 December 1999	31 December 1998
Balance at 1 January 1999	286,107	220,854
Revaluation for the period	-	2,209
Excess of revenue over expenditure for the year	43,905	63,044
<b>Balance at 31 December 1999</b>	<b>330,012</b>	<b>286,107</b>

**15. RELATED PARTIES**

Related party receivables	Nature of the related party relationship	Transaction during the year	Outstanding balance 31 December 1999
Agency Atlantic EOOD owned by ARC fund	100% of the capital of use BGN 45,900	Limited property right of use BGN 45,900  Payment related to property right of use BGN 9,180	BGN 37,570
Radio Galatea	10% of the capital owned by ARC fund	none	BGN 76
Radio Atlantic Varna EOOD	100% of the capital owned by ARC fund	none	BGN 512
Center for the Study of Democracy	CSD and ARC Fund are both represented by the Chairman of the Board of Trustees	Short term financial aid amounting to BGN 270	BGN 270
<b>Related party payables</b>			
Agency Atlantic EOOD	100% of the capital owned by ARC fund		USD 1,208
Center for the Study of Democracy	CSD and ARC Fund are both represented by the Chairman of the Board of Trustees	Loan repayment of USD 41,162; Financing USD 56,850; Short term financial aid amounting to BGN 7,911; Short term financial aid amounting to SD 738	USD 38,838

**16. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

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 1999.

**17. CONTINGENCIES**

There are no contingencies to report on.

**18. RECONCILIATION OF IAS RESULT**

In BGN	31 December 1999
Description	
NAS result	109,518
Write off of revaluation from 1997	7,785
Write off of statutory depreciation charge	52,198
Unrecognized income from limited property right of use	51,018
Depreciation charge on inflated assets	(105,527)
Deferral of income	(67,174)
Bad debt provisions	(3,913)
<b>IAS result</b>	<b>43,905</b>



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

### Scope

We have audited the accompanying balance sheet the related statements of income and expenditure account and cash flows for the year then ended of ARC Fund as of 31 December 1999.

### Respective responsibilities of directors and auditors

The organization's management is responsible for the preparation of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of Applied Research and Communications Fund as at 31 December 1999, and the excess of income over expenditure in accordance with International Accounting Standards.

18 February 2000

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