SMALL AND MEDIUM-SIZED ENTERPRISES IN BULGARIA
2002 – 2003

REPORT BY
THE AGENCY FOR SMALL AND MEDIUM-SIZED ENTERPRISES

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# CONTENTS

LIST OF TABLES ............................................................................................................................................................................. 5

LIST OF FIGURES ........................................................................................................................................................................... 7

SUMMARY ........................................................................................................................................................................................ 8

INTRODUCTION ............................................................................................................................................................................. 11

Chapter one  
1. Macro-economic environment for SME development................................................................................................................ 13
2. SME importance for the economy of the country ...................................................................................................................... 15
3. SME importance for the non-financial sector of the economy ................................................................................................. 17
4. General characteristics of private SMEs ..................................................................................................................................... 20
5. SMEs by sectors.......................................................................................................................................................................... 22
6. SMEs by planning regions ........................................................................................................................................................... 23
7. Participation of SMEs in foreign trade ......................................................................................................................................... 25
8. Direct foreign investments in SMEs............................................................................................................................................. 29

Chapter two  
INSTITUTIONAL FRAMEWORK FOR SME DEVELOPMENT ...................................................................................................... 34
1. European Integration and SMEs ................................................................................................................................................. 34
  1.1. European Charter for Small Enterprises ............................................................................................................................ 34
  1.2. European Programmes in Support of SMEs ...................................................................................................................... 35
2. General Characteristics of the National Policy on SME Development ........................................................................................ 38
3. SME Act/Act on Promotion of Entrepreneurship .......................................................................................................................... 39
4. National Organizations in Support to SMEs ................................................................................................................................... 40

Chapter three  
ADMINISTRATIVE AND REGULATORY ENVIRONMENT FOR SME DEVELOPMENT ............................................................... 44
1. Regulatory regimes and administrative reform ........................................................................................................................ 44
  1.1. Regulatory regimes ............................................................................................................................................................ 44
  1.2. Administrative reform and support to SMEs ..................................................................................................................... 47
  1.3. One-stop shop service ....................................................................................................................................................... 47
2. Protection of competition ............................................................................................................................................................. 49
3. Regulation of bankruptcy proceedings .......................................................................................................................................... 50
4. Settlement of business disputes .................................................................................................................................................. 50
5. SME access to public procurement ............................................................................................................................................. 52
6. Corruption environment ............................................................................................................................................................... 54
LIST OF TABLES

Table 1. Basic macro-economic indicators ............................................................................................................. 14
Table 2. Basic indicators of SMEs (1-99) in the economy in 2002, % ................................................................. 16
Table 3. Share of non-financial enterprises (sector C through K), by size classes in the Bulgarian economy, 2001 - 2002 ......................................................................................................................... 16
Table 4. Dynamics of the basic indicators of the condition of non-financial enterprises (sectors C through K) by size classes and their role in the Bulgarian economy, 2002 versus 2001. ................................................................................. 17
Table 5. Number of enterprises, 2002 .................................................................................................................. 18
Table 6. Structure of basic indicators of all non-financial enterprises (sectors C through K) by size classes, 2001 – 2002, % .................................................................................................................. 19
Table 7. Comparative data of SMEs in EU-15, candidate countries and Bulgaria, 2001 ........................................ 21
Table 8. Structure of basic indicators of private non-financial enterprises (sectors C through K) by size classes, 2001 – 2002, % .................................................................................................................. 21
Table 9. Structure of basic indicators of private non-financial SME by sectors, 2001 – 2002, % .................................................................................................................. 22
Table 10. Structure of basic indicators of private non-financial enterprises (sectors C through K) by planning regions, 2001 – 2002, % .................................................................................................................. 24
Table 11. Banking System Indicators ................................................................................................................... 55
Table 12. Receivables from the non-government sector ......................................................................................... 55
Table 13. Commercial banks’ data about loans to SMEs ........................................................................................ 56
Table 14. Liabilities on bank loans, private sector, thousand BGN ........................................................................ 56
Table 15. Lending to the non-financial private sector (selected banks with pronounced interest to the SME sector) ............................................................... 57
Table 16. Announced lending programmes and products targeting SMEs .......................................................... 58
Table 17. What are the major internal problems for your company? ......................................................................... 62
Table 18. Some Bulgarian Venture Capital Funds .................................................................................................. 63
Table 19. Some Leasing Companies in Bulgaria .................................................................................................... 64
Table 20. Compliance with recommendations from previous SME reports .......................................................... 68
Table 21. Operation areas under JOBS Project ....................................................................................................... 72
Table 22. Development of JOBS Project ............................................................................................................... 73
Table 23. Change in SME operation through Internet use ......................................................................................... 75
Table 24. ICT market in Bulgaria, 2001-2003, (million EUR) ............................................................................... 77
Table 25. IT business in Bulgaria (including only Top 250 IT companies) .............................................................. 77
Table 26. Gross output (million BGN) .................................................................................................................. 78
Table 27. Gross value added (million BGN) ........................................................................................................... 78
Table 28. Research costs (in %) .......................................................................................................................... 79
Table 29. Level of providing the 8 priority services of the “Administration to Business” type ........................................ 79
Table 30. Share of enterprises, which at this stage do not intend to implement new technology in main production depending on the condition of their business ................................................................................. 83
Table 31. Gross investments in FTA per enterprise in the private sector, by sectors (thousand BGN, current prices) ............................................................................................................................... 84
Table 32. Relative share of gross investment in FTA by sectors ............................................................................. 84
Table 33. FTA per enterprise, by sectors (thousand BGN, current prices) ............................................................... 85
Table 34. Productivity of labour by sectors (Value added per 1 employee, BGN, current prices) .............................. 85
Table 35. Relative productivity of labour by sectors (Size class for the corresponding year = 100) ....................... 86
Table 36. FTA per enterprise, by planning regions (thousand BGN, current prices) ................................................... 86
Table 37. Gross investment in FTA per enterprise by planning regions (thousand BGN, current prices) ................. 87
Table 38. Productivity of labour by planning regions (Value added per 1 employee, BGN, current prices) ............ 87
Table 39. Relative productivity of labour by planning regions (Size class for the corresponding year = 100) .......... 87
Table 40. Average employment per enterprise by sectors ....................................................................................... 88
Table 41. Labour costs per enterprise by sectors (thousand BGN, current prices) ................................................................. 88
Table 42. Areas in which training for employees is offered ........................................................................................................... 89
Table 43. Long-term liabilities of SMEs towards associated enterprises (thousand BGN, current prices) ............................... 89
Table 44. Short-term liabilities of SMEs towards associated enterprises (thousand BGN, current prices) ......................... 89
Table 45. Short-term liabilities of SMEs (thousand BGN, current prices) .................................................................................. 90
Table 46. Steps taken by companies in relation to the preparation for accession to the EU ...................................................... 91
Table 47. Relative share of SMEs in Bulgaria’s exports in terms of value, (%)........................................................................ 92
LIST OF FIGURES

Figure 1. Distribution of enterprises with foreign trade operations in the SME sector by elementary size classes according to the number of persons employed, % ....................................................... 25
Figure 2. Distribution of enterprises realizing import (in % in 2002) ................................................................................... 25
Figure 3. Share of SMEs by size classes realizing export in 2002, % ......................................................................................... 26
Figure 4. Geographic structure of exports by SMEs, % ................................................................................................................. 27
Figure 5. Distribution of exports to EU by size classes (in % in 2002) ........................................................................................ 27
Figure 6. Share of SMEs by size classes realizing export in 2002, % .......................................................................................... 26
Figure 7. Distribution of imports from EU in 2002 by size classes (in %) .................................................................................. 28
Figure 8. Distribution of exports by SMEs by sectors (in %) ........................................................................................................... 28
Figure 9. Distribution of export of industrial products by size classes (%) .................................................................................. 28
Figure 10. Distribution of export in the trade sector by size classes (%) ....................................................................................... 28
Figure 11. Distribution of imports by SMEs by sectors (% in 2002) ................................................................................................. 29
Figure 12. SMEs share in the total import by sectors (% in 2002) ................................................................................................. 29
Figure 13. Distribution of import of industrial products by size classes (%) ................................................................................ 29
Figure 14. Distribution of import in the trade sector by size classes (%) ..................................................................................... 29
Figure 15. Share of enterprises in the SME sector with FDI by size classes (%) .......................................................... .................. 30
Figure 16. Distribution of FDI volume by size classes (%) ............................................................................................................. 30
Figure 17. Average volume of investment per enterprises by size classes (in shares) .................................................................... 30
Figure 18. What type of additional financing have you used? ................................................................................................... 62
Figure 19. Additional financing used in the last three years ....................................................................................................... 62
Figure 20. What is your opinion of the financing through stock-exchange security issues? (percentage of respondents) ........... 63
Figure 21. Average price of Internet access for 1 hour through a dial-up connection (in BGN) ...................................................... 70
Figure 22. Internet access costs in EUR (40 hours in rush hours) – January 2003 ............................................................... ............... 70
Figure 23. Economic sectors with the highest number of BIs ....................................................................................................... 72
In 2002 the number of small and medium-sized enterprises (SMEs) has surpassed 200 thousand, or 99.1% of all enterprises\(^1\). The largest share belongs to micro enterprises, which represent 90.8% of all SMEs, followed by enterprises with a staff of 10-49 employees – 7.3%, and those with a staff of 50-99 employees - 1%.

Over the last two years small and medium-sized enterprises have provided for over half of the employment in the non-financial sector and their share of the total number of persons employed in all non-financial enterprises have gone up to 53.8% in 2002 vs. 51.6% in 2001. SMEs are a fundamental generator of employment – while the net increase of the number of persons employed in 2002 vs. 2001 is 0.8%, the increase of the number of persons employed in SMEs is 7.1% compared to 2001.

In 2002 SMEs contributed to 34.2% of the value added and this indicator has been showing an upward trend since 1998. SMEs are a source of fast economic growth – the value added growth in SMEs is faster than the value added of all enterprises under review and of the economy as a whole. Productivity growth per 1 employee in SME also exceeds productivity growth as a total for the economy.

One of the main characteristics of the small and medium-sized business in Bulgaria continues to be the existence of a very high number of micro-enterprises, having low average employment rates (2.1 persons employed per enterprise) and relatively low labour productivity, which is nearly two times lower compared with the class of small and medium-sized enterprises. There is a tendency towards decreasing the number and share of micro-enterprises, while simultaneously increasing the number and share of enterprises with 10-49 persons employed, which show the best potential for growth. The positive dynamics in the development of small enterprises (10-49) is indicative of their specific advantages in the production structure compared to the class of micro and medium-sized enterprises. The number of micro-enterprises is 12 times higher than small enterprises, while the number of persons employed in micro-enterprises is only 37% higher than the number of persons employed in the small enterprises. The potential for creating new jobs in the class of small enterprises (10-49) is much more impressive - in 2002 the number of employees in 14.7 thousand small enterprises is 274.6 thousand and exceeds by 30% the number of employees in 183.7 thousand micro-enterprises (211.8 thousand employees) and is two times higher than the number of employees in medium-sized enterprises.

In 2002 the structural contribution of the enterprises with 10 to 49 persons employed has increased over 2001 by all indicators. This increase can be seen as quite substantial compared to the far more modest contribution of the enterprises with 50-99 persons employed and the decrease witnessed in most indicators of the share of other classes of enterprises. Special attention should be paid to the change in the shares of the enterprises with 10-49 persons employed measured by the following indicators: the number of those enterprises has increased from 6.2 to 7.3%; share of persons employed – from 17 to 18.9%; turnover – from 20.5 to 21.3%; value added – from 12.7 to 14.8%. Small enterprises mark the largest increase of share in gross investments in fixed assets – from 15.7 to 20.7%.

“Trade” is the most attractive sector for the development of small and medium-sized business, followed by “Manufacturing”. Over half of the SMEs are concentrated in the sector “Trade”, 12% in “Manufacturing”, slightly above 10% in “Real estate and Business services” and “Hotels and restaurants”. 40.2% of total number of persons employed in SME are dealing with trade, therefore, this sector holds 68.1% of the SME turnover and generated 41.1% of the value added. It should be noted that the structural importance of the trade sector in terms of number of enterprises, of number of persons employed and of value added has decreased.

\(^1\) These are all non-financial enterprises in sectors C through K of the National Classification of Economic Activities (NCEA) – hereinafter referred to as “enterprises”. Small and medium-sized non-financial enterprises in sectors C through K are hereinafter referred to “small and medium-sized enterprises” (SMEs).
though slightly, compared to 2001, to the advantage of manufacturing and construction.

The SME business in Bulgaria continues to be characterized by large territorial disproportions. From a geographical perspective the most attractive region for small and medium-sized business development continues to be the South-West planning region. Over 30% of SMEs and more than 1/3 of all persons employed are located in this region; it generates over half of the SME turnover and output as well as nearly 50% of the value added generated by SMEs; it concentrates nearly 50% of the gross investments in fixed assets and 46% of the fixed assets of all small and medium-sized enterprises in the country. The structural contribution of the North-West region is quite the opposite and holds between 2% and 4.7% share by different indicators.

Openness of the economy exercises a positive impact on the SME sector, and their share in the total number of enterprises involved in foreign trade operations in Bulgaria is increasing. In 2002 SMEs generated 25.2% of the exports and 38.4% of the imports of goods in the country. SMEs with 10-49 persons employed have the largest share in exports/imports. Their substantial weight in the value of exports and imports reveals their flexibility and potential to make use of their advantages. The medium-sized enterprises class shows stable growth and better positions in exports, while micro-enterprises deal better with imports.

Unlike their potential to conduct foreign trade operations, SMEs are not attractive enough for foreign investors and they account for about 1/3 of attracted investments. Micro-enterprises are the major recipient of foreign capitals in the group of SMEs. A clearly expressed trend of downsizing their share in the total number of SMEs attracting investments exists and it is at the expense of small and medium-sized enterprises.

Over the last few years the environment in which small and medium-sized enterprises operate, has improved. SMEs competitiveness is influenced by several groups of factors. These are: the institutional framework and government support; legal and regulatory environment; access to finance; information and modern technologies; and, last but not least, the quality of business plans.

Measures have been taken to improve the institutional framework for SME development and enforcing the government support to the sector. Those include the adoption of new by-laws of the Ministry of Economy and proposing amendments to the Act on SMEs and drafting a law for promoting investments in SMEs. The proposed structural and functional changes in the government institutions working to support the SME sector development prove the existence of an integrated approach towards the formulation, implementation and control of SME policy, based on efficient public-private partnership.

In general, the positive changes in the work of government institutions result from the improved strategy for SME policy development and better cooperation with business organization during its formulation and implementation.

Regardless of the measures taken to strengthen the institutional framework in support of SMEs, the latter are still facing problems resulting from the lack of adequate and actually implemented programmes, insufficient awareness by business on the functions, goals and tasks of government institutions working in the sector, as well as the existence of a sizeable bureaucracy.

Reducing the weight of the regulatory regimes, strengthening the legislation protecting competition and the procedures for public procurement, better regulation of insolvency, settling disputes on commercial transactions, as well as neutralizing corrupt practices will have a positive impact on the business climate and environment, in which SMEs operate. Nevertheless, additional measures should be undertaken in this sector, especially towards enhancing and facilitating regulatory regimes and administrative procedures and ensuring better transparency.

SMEs access to finance has been improving – banks are showing increasing interest in financing SMEs, which is expected to continue in future. Despite the positive changes, however, SMEs are still lacking adequate financial resources; lending interest rates and collaterals are seen as a major barrier. SMEs have little awareness or no access to alternative sources of financing. The opportunities for government support through different guarantee schemes or co-financing are still unexplored. SMEs access to finance can be improved through more intensive information channels and increased administrative capacity to utilise resources under international programmes for financing the SME sector.

Along with the factors specified above, of great importance to the successful development of SME competitiveness is the quality of business plans and SME potential to make use of modern technologies and up-to-date information, to introduce innovations, to develop efficient marketing strategies, to execute adequate HR management policy, as well as to prepare for EU accession. These are the fields where SMEs should put significant efforts and utilize more extensively the advantages of the business incubators, e-government and other good practices.

Going forward, the overall improvement of the environment for SME development will entail intensive cooperation among the government, NGOs, industrial organizations and associations in the formulation and implementation of the policy for promotion of entrepreneurship. Local and regional government authorities should be given adequate powers and resources in order to provide efficient support to SMEs on a local and regional level. The definition and implementation of clear policy for gathering and dissemination of information on legislative changes, on the
European business requirements and on existing programmes will furnish SMEs with more opportunities for development. The proclamation of the changes in the government policy for promotion of entrepreneurship is of high importance – it will increase the confidence of business circles towards the implementation of this policy.
Small and medium-sized enterprises (SMEs) are a major drive for accelerating economic growth, developing high-tech productions and high value added products, improving economic competitiveness. Their dynamics contributes directly to decreasing regional differences, solving the unemployment problem, and improving the living standards.

The need for well targeted government support of Bulgarian small and medium-sized enterprises is determined on one hand by their importance for the Bulgarian economy and on the other hand by their impeded access to finance, especially in the early stage of their development, by the high compliance costs for implementing the legislation, by the difficult access to information about the developments in Bulgarian and European legislation, by technologies and by changing markets and consumer preferences.

Creating a favourable environment for SME sector development is becoming a top priority of Bulgaria’s economic policy. In recent years the support for SMEs is generally manifested in the adopted National Strategy for Promotion of SME Development in Bulgaria 2002-2006, along with its Action Plan, in the fact of Bulgaria’s accession to the EU Multi-annual Programme for Enterprise and Entrepreneurship Development and in Bulgaria’s adherence to the European Charter for Small Enterprises.

The basic objectives of this report are to present the situation of the SME sector, to outline its role and contribution to Bulgaria’s economy, and to analyze the opportunities for and obstacles to SME development in some key areas – administrative and regulatory environment, access to finance, information support. By meeting these objectives, this report will reveal SME progress since the previous report in 2002, formulate key problems in the sector, and highlight the necessary steps that have to be taken to strengthen the role of the sector in the economy.

The statistical information in the report covers the period 2001-2002; the other information refers to the period 2000 – March 2004. The major source of statistical data is the National Statistical Institute (NSI).

INTRODUCTION

The report presents the condition of SMEs in 2002: in general; by type of ownership; private sector by economic activity sectors; and private sector by planning regions. The dynamics analysis is based on analog data for 2001.

The analysis focuses by using NSI’s data that corresponds to the European standards of enterprise statistics and allows for calculating those SME analytical indicators employed in the European practice.

The enterprise population surveyed comprises all non-financial enterprises in sectors C to K of the National Classification of Economic Activities, version 2003 (NCEA-2003), divided into size classes in terms of number of persons employed.

The selected size classes in terms of number of persons employed - elementary (1-9; 10-49; 50-99; 100-249; 250+) and intermediate (1-99 – small and medium-sized enterprises in this report; 50-249) – enable a transition from the present to a future legal definition of SMEs and are in line with the European Commission’s Recommendation of 6 May 2003 on the definition of micro-, small and medium-sized enterprises.

The standardized approach of statistical analysis of enterprises employed in the report is a precondition for two essential advantages of the future analysis of Bulgarian SMEs:

- It allows for the application, on a sustainable basis, of the same methodology of statistical analysis of enterprises and allows for a dynamic comparability of the data on SMEs in annual reports.
- It allows for comparison with EU member States and accession countries, using as source material, regular data on SMEs from Eurostat databases.

Major changes in the methodology of analysis compared to previous reports include: change of scope concerning

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2 The statistical analysis “Bulgarian Small and Medium-sized Enterprises in the period 1999-2000” published by NSI in 2002 in cooperation with the Agency for SME, and “Bulgarian Small and Medium-sized Enterprises” (statistical analysis), NSI, 2004, can be used to make comparison with 1999 and 2000, however with some reservations as this is not quite correct in a methodological aspect.
enterprise class size in terms of number of persons employed; transition to official indicators as per the standard European methodology of structural business statistics, hence specifying the sector classification of SMEs; and creation of an analytical model for looking at private enterprises.

The sector scope of the survey population of non-financial enterprises is formed by the sectors within the scope of NSI’s Structural Business Statistics (SBS). These include: mining and quarrying; manufacturing; electricity, gas and water supply; construction; trade, repair of motor vehicles and personal and household goods; hotels and restaurants; transport, storage and communication; real estate, renting and business activities.

Territorial distribution of data is based on the six planning regions: North-West, North Central, North-East, South-East, South Central, and South-West.  

The statistical information is supplemented with the results of a sociological survey conducted in October 2003, prepared by the sociological agency Estat. The survey is representative at the national level and covers 500 micro, small and medium-sized enterprises plus 56 enterprises with 100+ employees. Outputs from a survey of 2 250 enterprises in the real sector conducted in March 2002 by NSI on behalf of the Center for Economic Development within a Japanese International Cooperation Agency’s (JICA) project have been used. Other materials on the problems of SMEs published by Bulgarian and international institutions in the last two years have been used as well.

This approach allows for complementing quantitative characteristics and indicators with the opinion of SME representatives. This is especially important for evaluating the environment in which enterprises operate and for characterizing the intracompany factors and the quality of corporate strategies. Against this background the challenges facing SMEs are highlighted.

Chapter One of the report presents the Bulgarian SME sector based on quantitative data produced by NSI. The data allow for a comparison of the SME sector and highlight the sector’s role in Bulgaria’s economy and non-financial economic activities. Basic indicators like the share of SMEs in GDP and GVA, the contribution of SMEs in employment, foreign direct investments, and export and import are analyzed, as well as the labor productivity. Data for the private sector SMEs is presented by sectors and by planning regions.

The second basic objective – a review of the environment for SME development in some key areas – is achieved in the next chapters of the report. Topical events, facts, legislative changes, and strategic and programming documents are highlighted for each one of the discussed areas. An attempt to assess the impact of these developments on the behavior of SMEs is made; and conclusions and recommendations are formulated.

Chapter Two presents the institutional framework for development of the sector. The European Charter for Small Enterprises, which sets the basic priorities in this field, is taken as a starting point. The Government policy for SMEs is characterized with a focus on the special framework for SME development – strategies, programmes, and legislation.

Chapter Three offers a review of the administrative and regulatory environment for SME development with focus on regulatory regimes, competition protection, access of SMEs to public procurement, regulation of litigation, and counteracting corruption practices.

Chapter Four analyzes, following the basic priorities in the European Charter for Small Enterprises and in line with EU policy priorities, the access of SMEs to finance. The different options of procuring funds are presented, including banks’ interest in financing SMEs, as well as the alternative sources of financing – capital market; guarantee facilities; government, non-government and international programmes; and informal sources.

Chapter Five presents an analysis of the access of SMEs to information and of the role of high technology and the opportunities for its implementation in SMEs. Special attention is devoted to the high-tech SMEs and the business incubators providing support for start-up companies. The e-Government services for business are also discussed.

Chapter Six deals with an issue that is as important for companies’ competitiveness as the condition of the business environment – the quality of corporate strategies and internal factors for SME development. Comments are focused on the internal resources of SMEs and their development priorities. Factors like information resources and marketing strategies, implementation of high technologies, quality of management, human resource policy, and adapting SMEs to the European Common market requirements are discussed. This analysis is based on an SME survey and completes the picture of the sector outlined on the basis of statistical information.

A summary of problems with corresponding recommendations is presented at the end of each chapter.

The work was finally completed on 31 May 2004.

This report has been prepared by a research team at the Center for Economic Development. Meetings, discussions and consultations with experts from the Agency for SME, NSI, ministries, agencies, and non-government organizations were organized in the preparation of this report. These institutions contributed information, advice and recommendations on the structure and content of the report, as well as proposals for improving the environment for development of Bulgarian small and medium-sized enterprises.

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3 For more details on the methodology of statistical analysis see Annex 1.
Chapter one

1. Macro-economic environment for SME development

Over the last two years the SME sector has been developing against a background of relatively high paced general economic growth and macro-economic stability. Some of the basic macro-economic indicators can be presented in the following way.

Gross Domestic Product and Main Sectors Dynamics

Following 2000, the Bulgarian economy has been growing steadily by over 4 % per annum. The real growth of GDP reached 4.9% in 2002 and 4.3 % in 2003. In nominal terms, the annual GDP has a value of BGN 32 335 083 thousand and BGN 34 410 244 thousand, respectively in 2002 and 2003. Gross value added dynamics follows the one of GDP but at a somewhat slower pace – real growth rates of GVA reached 4.7% in 2002 and 4% in 2003.

In the production method structure of GDP, GVA generated in the services sector accounted for the highest relative share – 51.9% and 51.2% of total GDP in 2002 and 2003, respectively. Second in importance came industry – 25.6% and 26.2%. GVA share in GDP from the agrarian sector continued to decline, reaching 10.7 % and 10% in 2002 and 2003, respectively.

Real growth rates of GVA in various sectors vary substantially. Thus, for instance, in 2003 GVA of the agrarian sector registered a decline of –1.3%, while industry recorde a GVA growth of 7.1%, and services – 3.5% on an annual basis.

GVA growth rates in the public and private sector continued to move in different directions – in 2002, for example, the growth rate in the public sector was negative (-2.7%), while GVA generated by the private sector grew to 7.6%.

The dynamics in industry were extremely positive in 2003. Physical volume index of industrial sales totaled 117.4% on an annual basis (16.1 percentage points growth for a year) and the physical volume index of industrial production was 115.2 % (10.6 percentage points growth for a year).

Labour Market and Incomes

The number of employees (persons employed under labour and civil service contracts) continued to increase. As an average, in 2002 the number of employees in these categories was 28 000 greater than the previous year. In 2003, compared to the previous year, the number of employees as an average for the period increased by 71 000 to reach 1 998 996.

The number of employed under labour and civil service contracts in the private sector reached 1 246 574 at the end of 2003 while the number of employees in the public sector at the end of the same year is 758 795.

Despite the NSI’s change of methodology for surveying labour force in 2003 (and the ensuing imprecision of direct comparisons to previous periods), it can be assumed on the basis of these data that there is no considerable improvement in the labour force dynamics (i.e. in the total number of currently economically active population). These are individuals age 15 and above who offer their labour for the production of goods and services. Labour force includes both employed (employees labour plus all the remaining categories, including those running their one business and providing services under civil contracts) and unemployed. During the last quarter of 2003, monitoring of the labour force showed that the current economically active population amounts to 3 237.1 thousand. Surveys in the fourth quarter of 2002 registered an economically active population of 3 249 thousand.

The unemployment ratio (the ratio between the number of unemployed and total labour force) is significantly improving according to NSI labour force surveys. From 19.5% at the end of 2001, the unemployment rate decreased to 12.7 % in the last quarter of 2003. Employment Agency data confirm the general positive dynamics of unemployment —under the agency’s methodology, compared to the economically active population.
as per the census of 2001, the 17.88% unemployment rate at the end of 2001 decreased to 13.52% by the end of 2003. The general economic revival, as well as MLSP’s measures on the introduction of new social insurance thresholds and registration of labour contracts from the beginning of 2003 are among the factors causing a decrease of registered unemployment in Bulgaria.

One of the serious problems remains the low level of income. Average monthly salary of those employed under labour contracts during the last quarter of 2003 (excluding annual bonuses) is hardly BGN 288. For the same period of 2002 the salary is BGN 275.

**Inflation**

Preserved macro-economic stability is expressed in the low inflation rate in Bulgaria. Although the inflation rate in the last month of 2003 (represented through the consumer prices index less 100, with a reference the corresponding month of the previous year) reached 5.6%, the average inflation rate for the year was 2.3%. This was far below the values for the last two years – 7.4% for 2001 and 5.8% for 2002.

Price levels were also influenced by the consumption growth but currently this is reflected more in the producer prices than in consumer ones. Producer prices are probably particularly influenced by exports growth but similar links require a separate analysis. In any event way, the producer price index on the domestic market over the last years also reflects the general economic revival in the country and this is confirmed by the parallel growth of industrial sales. Taking as a reference the year 2000, the producer price index on the domestic market for industry generally rose – 108% for December 2002 and 112.66% for December 2003.

**Balance of Payments**

The total balance of payments remained positive - USD 715 m for 20002 and USD 732 m for 2003. This balance reflects all payments between Bulgaria and the rest of the world, with the respective dynamics of the exchange rates. Over the last months the attention of analysts was focused on the Current Account item of the balance of payments, where a great increase of the deficit has taken place. From USD -825 m in 2002, the balance in the current account in 2003 was USD -1 666 m. Concerns arise also from the relative deterioration of the current account. In 2002 the deficit in the current account amounted to -4.6% of GDP and in 2003 increased to 8.7% of GDP.

The explanations for the sudden deterioration of the current account balance can be found in consumption growth (also stimulated by the bank lending growth) over the last year. Yet, the current account balance was neutralized by the balance of the financial account in the balance of payments, which grew from USD 1 723 m in 2003 to USD 2 063 m in 2003. Direct investments in Bulgaria contributed to the positive balance of the financial account – with USD 905 m in 2002, and in 2003 over USD 1 400 m.

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<tr>
<th>Table 1.</th>
<th>Basic macro-economic indicators</th>
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<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>GDP, real growth rate, previous year =100, %</td>
<td>4.1</td>
</tr>
<tr>
<td>GDP, current prices, BGN thousand</td>
<td>29 709 210</td>
</tr>
<tr>
<td>GVA, total, real growth rate, previous year =100, %</td>
<td>3.9</td>
</tr>
<tr>
<td>GVA, agricultural sector, real growth rate, previous year =100, %</td>
<td>0.3</td>
</tr>
<tr>
<td>GVA, agricultural sector, ratio to GDP at current prices, %</td>
<td>11.9</td>
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<tr>
<td>GVA, industrial sector, real growth rate, previous year =100, %</td>
<td>4.1</td>
</tr>
<tr>
<td>GVA, services sector, ratio to GDP at current prices, %</td>
<td>25.5</td>
</tr>
<tr>
<td>GVA, services sector, ratio to GDP at current prices, %</td>
<td>4.7</td>
</tr>
<tr>
<td>GVA, public sector, real growth rate, previous year =100, %</td>
<td>51.4</td>
</tr>
<tr>
<td>GVA, industrial sector, ratio to GDP at current prices, %</td>
<td>-2.3</td>
</tr>
<tr>
<td>Index of Industrial Production, volume index, previous year =100, %</td>
<td>102.2</td>
</tr>
<tr>
<td>Index of Industrial Sales, volume index, previous year =100, %</td>
<td>102.8</td>
</tr>
<tr>
<td>Employees, total, annual average number</td>
<td>1 899 874</td>
</tr>
<tr>
<td>Employees, private sector, end of period number</td>
<td>1 110 642</td>
</tr>
<tr>
<td>Employees, public sector, end of period number</td>
<td>768 207</td>
</tr>
<tr>
<td>Unemployment, total, Labour Force Survey, %</td>
<td>19.5</td>
</tr>
<tr>
<td>Unemployment, total (Employment Agency), end of period, %</td>
<td>17.88</td>
</tr>
<tr>
<td>Average monthly salary of the employees, 4th quarter, annual bonuses excluded, BGN</td>
<td>-275</td>
</tr>
<tr>
<td>Inflation (CPI-100), annual, previous year=100, %</td>
<td>7.4</td>
</tr>
<tr>
<td>Inflation (CPI-100), December, December of previous year =100, %</td>
<td>4.8</td>
</tr>
<tr>
<td>Producer Price Index, Industry – total, December, 2000=100, %</td>
<td>101.6</td>
</tr>
<tr>
<td>Total balance of Balance of Payments, USD m.</td>
<td>373.1</td>
</tr>
<tr>
<td>Current account, USD m</td>
<td>-984</td>
</tr>
<tr>
<td>Current account, ratio to annual GDP, %</td>
<td>-6.2</td>
</tr>
<tr>
<td>Financial account of Balance of Payments, USD m</td>
<td>662.8</td>
</tr>
<tr>
<td>Direct investments in Bulgaria, USD m</td>
<td>812.9</td>
</tr>
</tbody>
</table>

Source: NSI, BNB.
while financed through other items of the balance of payments. Current concerns are related rather to the growth rate of the absolute and relative amount of the deficit. Worsening of the current account deficit results also from the increased domestic consumption, which in turn accompanies the general economic growth.

The indicators discussed above are summarized in Table 1.

2. SME importance for the economy of the country

In 2002 the contribution of small and medium-sized enterprises\textsuperscript{4} to the gross domestic product (GDP) of the country was 11% versus 10.3% in 2001. Small and medium-sized enterprises (SME) generated 14.1 % of the gross value added as a total for the economy.\textsuperscript{5}

In 2002 SMEs generated 34.2% of the value added of enterprises in the sectors under review. When comparing this indicator to previous years an ascending trend is observed in the change of its value starting from 1998, when the SME's share in value added was 25.4%. In 1999 this share reached 30.72%, it almost preserved its value in 2000 (29.96%) and reached 31.2% in 2001.

Over the last two years a positive trend has been observed in SME development, expressed in a faster growth of value added in SME compared to the growth of value added in the economy as a whole. In 2002 this growth rate was 13.4% for SME, while for the economy it was 5.5%.\textsuperscript{6} Value added growth rates differed in times among various classes of SME. Fastest was the growth in the class of 10 – 49 employed (20.1%), followed by the class of 55 – 99 employed (12.5%), and lowest (6.5%) was the growth rate of value added in the most numerous class of enterprises, those with a staff of 1 – 9 employed.

Compared to the relatively low input of SMEs in the final result from the economic activities in the country for a given period measured through the share in GDP and in GVA, SMEs’ contribution to total employment in the economy is twice higher. Their share in 2002 was 27.3% of the number of the employed versus 25.7% in 2001. Highest was the share of the persons employed in the class of micro-enterprises (1-9 employed), which is 13.2% of all the persons employed in the economy.

Undoubtedly, SMEs are a generator of employment. With a net increase of the number of persons employed in the economy in 2002 of 0.8% (in excess of 24,000) versus 2001, the increase of employment in SME exceeded 54,000 or 7.1% versus 2001. The most significant contribution to the employment rate increase among SMEs was provided by the enterprises in the size class of 10-49 employed, where the increase was more than 36,000.

Productivity growth per person employed in SMEs was 5.9% in 2002 compared to 2001. This growth also exceeded productivity growth as a total for the economy, which was 4.7% for the same period. By sub-classes productivity per person employed grew by 3.6% in the class of enterprises with a staff 1-9, by 4.9% in the class 10-49 staff and 6.9% growth in the class of 50-99 employed. What is notable is that the productivity growth per person employed in enterprises from the class with 50-99 persons employed was generally the highest compared to all size enterprise classes.

In 2002 the SME share in foreign direct investment (FDI) was 31.3%. In 2001 this share was 32.2%, which means a shrinking of the share of SMEs in direct investments in the economy. The largest enterprises, with a staff over 250, have attracted the highest foreign investments – their share in FDI is 55%. The nominal growth of FDI is highest again in enterprises with a staff over 250 – it is 66.3% and is almost double compared to FDI growth in SMEs.

The values of the basic indicators of the condition and role of SMEs for the economy in Bulgaria in 2002 outline a still low contribution by SMEs, but a clear trend of increasing importance. A positive sign for the enhanced role of SMEs is both their increasing share in the examined indicators compared to 2001 and the faster growth rates of value added, employment and productivity per person employed.

The role of SMEs in the economy would increase if calculations are made by basic indicators applying the new definition of SMEs – all non-financial enterprises of the above industrial sectors with a staff 1 – 250. In such a case the picture is more favourable but nevertheless the share of small and medium-sized enterprises in the gross domestic product and in the gross value added remains low in comparison to the other Central and East-European countries. In 2001 SMEs (1-250) in Bulgaria still accounted for only 17.8% of the gross value added in the economy, and in 2002 their share grew to 18.8%. This circumstance demonstrates the need for an active policy for encouragement of small and medium-sized enterprises in the country.

The basic indicators underlying the importance of small and medium-sized enterprises for the Bulgarian economy in 2001 – 2002 are presented in Tables 2, 3 and 4.

\textsuperscript{4} Public and private non-financial enterprises with a staff from 1 through 99 persons employed in industrial sectors from C to K of National Classification of Economic Activities (NCEA-2003).

\textsuperscript{5} In the previous reports on SME no calculations were made of the ratios between SME generated GVA to GDP and to GVA as a total for the economy.

\textsuperscript{6} GVA excluding imputed rent of owner-occupied dwellings.
Table 2. Basic indicators of SMEs (1-99) in the economy in 2002, %

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of SME value added to GDP</td>
<td>11.0</td>
</tr>
<tr>
<td>Share of SME output to the gross output(^7) as a total for the economy</td>
<td>26.1</td>
</tr>
<tr>
<td>Share of the persons employed in SME to the total number of persons employed in the economy</td>
<td>27.3</td>
</tr>
<tr>
<td>Real growth rate of SME value added</td>
<td>13.4</td>
</tr>
<tr>
<td>Real growth rate of labour productivity(^8) in SME</td>
<td>5.9</td>
</tr>
<tr>
<td>Growth rate of the number of persons employed in SME</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Source: NSI and own calculations.

Table 3. Share of non-financial enterprises (sector C through K) by size classes in the Bulgarian economy, 2001 - 2002

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of value added at basic prices in GDP, %</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Share of value added at basic prices in GVA excl. imp. rent, %</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Share of output in the gross output excl. imp. rent, %</td>
<td>9.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Share of persons employed, %</td>
<td>12.9</td>
<td>13.2</td>
</tr>
<tr>
<td>Share of employees, %</td>
<td>10.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Share of foreign direct investments as of 31.12. %</td>
<td>13.2</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source: NSI data and own calculations.

\(^7\) Without the imputed rent of owner-occupied dwellings.

\(^8\) Value added at basic prices per person employed
Table 4. Dynamics of the basic indicators of the condition of non-financial enterprises (sectors C through K) by size classes and their role in the Bulgarian economy, 2002 versus 2001.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Elementary size classes according to the number of persons employed</th>
<th>Intermediate size classes</th>
<th>Total for all elementary size classes</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-9</td>
<td>10-49</td>
<td>50-99</td>
<td>100-249</td>
</tr>
<tr>
<td>Real growth rate of GDP, %</td>
<td>4.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real growth rate of GVA at basic prices, %</td>
<td>6.5</td>
<td>20.1</td>
<td>12.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Real growth rate of productivity – GVA per person employed, %</td>
<td>3.6</td>
<td>4.9</td>
<td>6.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Real growth rate of productivity – GVA per employee, %</td>
<td>-4.1</td>
<td>4.4</td>
<td>6.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Growth rate of the number of persons employed, %</td>
<td>2.8</td>
<td>14.5</td>
<td>5.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Growth rate of the number of employees, %</td>
<td>11.1</td>
<td>15.1</td>
<td>5.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Change in the number of persons employed, number</td>
<td>10867</td>
<td>36418</td>
<td>6760</td>
<td>-509</td>
</tr>
<tr>
<td>Change in the number of employees, number</td>
<td>21075</td>
<td>36048</td>
<td>6928</td>
<td>-662</td>
</tr>
<tr>
<td>Nominal growth of FDI as of 31.12., %</td>
<td>31.12., %</td>
<td>20.5</td>
<td>32.4</td>
<td>51.0</td>
</tr>
</tbody>
</table>

Source: NSI data and own calculations.

3. SME importance for the non-financial sector of the economy

In 2002 the total number of enterprises\(^9\) in Bulgaria was 202 thousand versus 205 thousand in 2001. The number of small and medium-sized enterprises (1-99) in 2002 was slightly over 200 thousand or 99.1% of all enterprises. The share of SMEs in 2001 was the same.

Highest was the number of micro-enterprises and their share was 90.8% of all enterprises. This was followed by the class of enterprises with a staff of 10 to 49 – 7.3%, and the enterprises with a staff of 50-99, respectively 1%. The share of companies with a staff between 100 and 249 was 0.6%, and the share of companies with a staff over 250 is respectively 0.3% of the total number of enterprises.

\(^9\) These are all non-financial enterprises in sectors C to K – further on referred to as “enterprises”. Small and medium-sized non-financial enterprises in sector C to K further on are called “small and medium-sized enterprises” (SME).

In Bulgaria the share of companies in the different size classes is comparable to that in the EU. For instance, in 2001 the share of micro-enterprises in the total number of enterprises in the EU was 90.6%, and in Bulgaria – 92%. The same applies to the share of enterprises with a staff of 10-49 – in EU it was 7.9% of the total number of enterprises, and in Bulgaria the respective share was 6.2% (ref. Table 7 in this chapter).

Over the last three years small and medium-sized enterprises ensured over half of the employment in the non-financial sector and their share increased from 50.7% of the total number of the employed in all non-financial enterprises in 2000\(^10\) to 51.6% in 2001 and 53.8% in 2002.

\(^10\) Source: Report on small and medium-sized enterprises 2000-2002, ASME. It should be borne in mind that data for 2000 quoted here may be deemed conditionally comparable to the data in this report due to changes in the analysis methodology connected to a change in the brackets of enterprises classing according to the size expressed in the number of the employed, transition to formal indicators under the European statistics standard methodology of structural business statistics, more precise classification of SME, separation of the analysis of private enterprises.

Among the elementary size classes, the highest share in employment belonged to the largest companies (over 250 persons employed) – 33.5% in 2002. Compared to 2001 this share decreased due to the restructuring of some large companies and attendant transfer of some persons employed to small and medium-sized enterprises and also to other sectors of the economy.
Within the SME sector, micro-enterprises (1-9 persons employed) accounted for the highest share in employment in 2002 - 25.9 %, which was the same as in 2001. In 2002 versus 2001 most significant is the increase of employment in enterprises of the class 10-49 persons employed.

Table 5. Number of enterprises, 2002

<table>
<thead>
<tr>
<th>Sector/Region Code</th>
<th>Total enterprises</th>
<th>50-99</th>
<th>50-249</th>
<th>SMEs (1-99)</th>
<th>1-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>183686</td>
<td>14735</td>
<td>1960</td>
<td>1263</td>
<td>653</td>
</tr>
<tr>
<td>Public sector</td>
<td>351</td>
<td>401</td>
<td>148</td>
<td>120</td>
<td>132</td>
</tr>
<tr>
<td>Private sector</td>
<td>183347</td>
<td>14334</td>
<td>1812</td>
<td>1143</td>
<td>521</td>
</tr>
<tr>
<td>Private sector by sector: Mining and quarrying</td>
<td>C</td>
<td>62</td>
<td>45</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17967</td>
<td>5014</td>
<td>994</td>
<td>730</td>
<td>377</td>
</tr>
<tr>
<td>Energy and water supply</td>
<td>E</td>
<td>45</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>6774</td>
<td>1311</td>
<td>190</td>
<td>127</td>
<td>28</td>
</tr>
<tr>
<td>Trade and repair of motor vehicles, personal and household goods</td>
<td>G</td>
<td>105330</td>
<td>4921</td>
<td>291</td>
<td>95</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>H</td>
<td>19499</td>
<td>860</td>
<td>79</td>
<td>43</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>I</td>
<td>14348</td>
<td>890</td>
<td>115</td>
<td>51</td>
</tr>
<tr>
<td>Real estates and business services</td>
<td>K</td>
<td>19322</td>
<td>1283</td>
<td>126</td>
<td>76</td>
</tr>
</tbody>
</table>

In most of the value indicators that characterize the importance of SMEs for the non-financial sector, the SME share increased by about 2 percentage points.

The first examined value indicator characterizes companies’ turnover. It covers amounts invoiced by the enterprise that correspond to market sales of products, services and goods. All taxes and charges are included except for VAT; all amounts payable by the customer for transportation, packaging, etc. What is not included are the sales of fixed assets.

Total turnover of companies in Bulgaria in 2002 reached EUR 38 b. In 2002 small and medium-sized enterprises accounted for 52.3% of this turnover figure versus 50.4% in 2001 and 50.2% in 2000. Among all the classes of enterprises, the largest companies (over 250 employed) had the highest share in the turnover – 34% in 2002 which, however, was considerably lower compared to the previous year. Among the enterprises in the SME sector, micro-enterprises accounted for the most substantial contribution to total turnover – 23.7%, followed by enterprises with a staff of 10-49 – 21.3%, and enterprises of the class 50-99 – 7.3 %.

In 2002 compared to 2001 the share of all classes of SMEs, as well as of enterprises in the class 100-249, increased in turnover at the expense of a decreased share by the largest enterprises. Particularly significant was the increase in the class 100-249 – almost 4 percentage points. Striking is the fact that enterprises of this class showed exceptional dynamics in exports, too (ref. for details in it. 7 of this chapter), which also contributed to the growth of these companies.

The comparison of the structure of turnover by enterprises in Bulgaria and in the EU indicates that in the size class of 10-49, Bulgaria is at the EU-15 level (EU-15 in 2001 – 19.2%, Bulgaria – 20.5%). With micro-enterprises, the difference in the value of that indicator is more substantial – for the EU it is 18.4%, and for Bulgaria – 23%.

The next value indicator is the output produced by enterprises. It covers: the turnover less the net book value of sold materials and goods; changes in inventory of finished products and work-in-progress; costs of acquisition and disposal of fixed assets, etc. In 2002 small and medium-sized enterprises accounted for 37.4% of the output versus 35.4% in 2001. Among all classes of enterprises the highest share in produced output belonged to the largest companies – 44.2%. Among the enterprises in the SME sector the highest share in the total output belonged to the companies in the class 10-49 – 15.2 %. Close to this figure was the output produced by enterprises with a staff of 1-9 – 14%.

In 2002 SMEs generated 34.2% of the value added of the enterprises in the sectors under review. If a comparison based on this indicator is made with the previous years, a rising trend will be observed in the changes of its value, starting from 1998 when the SME share in the value added was 25.4%. In 1999 this share reached 30.72%, then almost maintained its value in 2000 (29.96%), and marked 31.2% in 2001.

Highest was the share of large enterprises (over 250) that generated over half of the value added in the non-financial sector. In the SME sector (1-99 employed) this share is highest with the enterprises with a staff of 10-49 persons employed – 14.8% of the value added in the non-financial sector.

Unlike previous indicators, the comparison to EU in this case shows more considerable differences – thus, for example, in 2001 micro-enterprises in Bulgaria accounted for 23% of the turnover and generated 11.5% of the value added, while in EU-
15 micro-enterprises generated 20.1% of the value added and accounted for 18% of the turnover.

The indicator of labour costs provides a picture of all payments made by the employer to the staff employed in the company for the work performed during the reporting period. These cover also all social insurance contributions paid by the employer. Labour costs incurred by SMEs accounted for 30.2% in 2002 versus 28.2% in 2001. Highest was the share of these costs in the enterprises with a staff from 10 to 49 employed – 13% of the total labour costs incurred by the enterprises in the non-financial sector.

Fixed assets of small and medium-sized enterprises presented less than one third of the total amount of fixed assets of all companies – 31.3% in 2002 and 28.9% in 2001, respectively. Largest enterprises with a staff over 250 had the highest share in fixed assets, regardless of the fact that their share in the total number of enterprises was insignificant. Their share reached 58% in 2002 versus 60% in the previous year.

Gross investments in fixed assets present the costs incurred during the year for the purchase of land, for construction and purchase of buildings, structures, machinery and equipment, and transport vehicles. Gross investments in fixed assets made by SMEs account for 45.2% in 2002 versus 36.9% of all gross investments in fixed assets. The positive change of this indicator is substantial and presents a proof of the investment activity of small and medium-sized enterprises.

The analysis of the indicators confirms the fact that in 2002 the structural importance of SMEs has increased compared to 2001. The most significant change in the examined shares is the above pointed rise by more than 8 percentage points of the SME share in gross investments.

The reasons for the increasing importance of SMEs are related to the maintained macro-economic stability, ongoing processes of production restructuring, including those in large enterprises, and improvement of the business environment that creates more favourable conditions for development of entrepreneurship and business start-up.

The main conclusions about the importance of individual size classes of SMEs in the non-financial sector are the following:

Among all the surveyed enterprises, enterprises with 1-9 persons employed were the largest number, and they employed about ¼ of all the persons employed. At the same time, the share of value added generated by them remains rather low.

The enterprises of the class of 10-49 employed had more significant contribution to the value added. Their number presented 7.3% of the total number of surveyed enterprises, their share in the number of persons employed was 18.9%, and the value added was 14.8% in 2002. As regards the SMEs value indicators, most significant was the structural importance and structural changes exactly in this class of enterprises. Compared to all the other classes it was namely here that value added and employment grew fastest – by 20.1% and 14.5% versus 2001, respectively. This class of enterprises showed the best adaptability, flexibility and dynamics of development over the last years.

### Table 6. Structure of basic indicators of all non-financial enterprises (sectors C through K) by size classes, 2001 – 2002, %

<table>
<thead>
<tr>
<th>Element of the Turnover</th>
<th>Elementary size classes according to the number of persons employed</th>
<th>Intermediate size classes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-9</td>
<td>10-49</td>
</tr>
<tr>
<td><strong>2001</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of enterprises</td>
<td>92.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Number of persons employed</td>
<td>25.9</td>
<td>17.0</td>
</tr>
<tr>
<td>Number of employees</td>
<td>15.0</td>
<td>18.8</td>
</tr>
<tr>
<td>Turnover</td>
<td>23.0</td>
<td>20.5</td>
</tr>
<tr>
<td>Output</td>
<td>13.6</td>
<td>15.0</td>
</tr>
<tr>
<td>Value added at basic prices</td>
<td>11.5</td>
<td>12.7</td>
</tr>
<tr>
<td>Labour costs</td>
<td>8.1</td>
<td>12.5</td>
</tr>
<tr>
<td>Gross investments in fixed assets</td>
<td>13.5</td>
<td>15.7</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>9.5</td>
<td>12.7</td>
</tr>
<tr>
<td><strong>2002</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of enterprises</td>
<td>90.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Number of persons employed</td>
<td>25.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Number of employees</td>
<td>16.1</td>
<td>20.8</td>
</tr>
<tr>
<td>Turnover</td>
<td>23.7</td>
<td>21.3</td>
</tr>
<tr>
<td>Output</td>
<td>14.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Value added at basic prices</td>
<td>11.8</td>
<td>14.8</td>
</tr>
<tr>
<td>Labour costs</td>
<td>8.1</td>
<td>13.9</td>
</tr>
<tr>
<td>Gross investments in fixed assets</td>
<td>15.8</td>
<td>20.7</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>9.9</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Source: NSI and own calculations
and 22.4%, respectively, though their number was only 8.3% of all enterprises.

If once again we expand the scope of SMEs and include all non-financial enterprises in the selected sectors with 1-250 employed under certain basic indicators, the importance becomes much higher. Compared to the contribution to GVA by all non-financial enterprises in the industries under review, the SME share (1-250) grew significantly to 45.6% in 2002. Nevertheless, although increasing, SME contribution to the non-financial sector of the economy has still not reached the importance of SMEs in Lithuania, Latvia, Poland, the Czech Republic and Hungary. These countries exceeded a 40% share of SME in GVA as early as the mid-90ies. The contribution of SMEs to employment in those countries is between 45% and 55%, whereas in Bulgaria it was 49.8% (2002). These data suggest the need for reducing the barriers to starting-up businesses in Bulgaria and creating more favourable conditions for their development.

4. General characteristics of private SMEs

Distributions of small and medium-enterprises by the type of ownership for all indicators presented in the report confirm the attenuating structural importance of public sector enterprises.

Tables 2,3,4 and Figures 1 through 7 of Annex II provide a possibility to compare the indicators of the size and relative competitiveness of SMEs in the public and the private sector.

The major conclusion to be drawn is that the average size of SMEs in the public sector – assessed by the indicators of number of employed per enterprise and fixed assets per enterprise – significantly exceeds the average size of enterprises in the private sector in all classes of small and medium-enterprises. At the same time, the indicator of turnover per enterprise is twice higher in private enterprises in the classes with 10-49 and 50-99 staff. A clear message the potential is the higher ratio of gross investments per person employed.

Private small and medium-enterprises (SME) account for 98.6% of non-financial enterprises, 99.6% of all SME and 99.2% of all private non-financial enterprises. Due to the predominant share of private SMEs (over 90%) according to all the examined structural indicators and due to the small differences in the ratios public/private sector, the contribution of private SMEs to the indicators as a total for the economy differs slightly from the sum contribution of public and private SMEs (ref. Tables 5,6 and 7 and Annex II).

This is a reason for more detailed review of small and medium-enterprises from the private sector – as a total, by economic activity sectors and by planning regions.

The importance of private SMEs within all the private enterprises surveyed in this report can be characterized as structurally defining. In 2002 the highest was the number of private SMEs with a staff of 1-9, and their share in the total number of private SMEs was 91.1%. 62.6% of the persons employed were in the private SMEs. The highest share in employment was the class of SMEs with a staff of 1-9, and this share was 30.8% of the total number of the persons employed in the private non-financial sector, followed by the class of small and medium-enterprises with 10-49 employed, with a share of 21.8% of persons employed in all private enterprises.

The importance of private SMEs by value indicators was substantial. SMEs accounted for 61.1% of the turnover of all private enterprises, the most significant being the contribution of enterprises of the class with 1-9 employed – 27.9%. The share of private SMEs in the gross investments in fixed assets was 54.1% of the total investments in fixed assets in private enterprises.

Private SMEs importance exceeded 40% with respect to the remaining indicators, also – output, value added, labour costs and fixed assets, where the respective values in 2002 were: 45.7% of the output, 46.9% of the value added and 41.5% of the labour costs.

Most dynamic was the development of the class of private enterprises with 10-49 employed – in 2002 the value added generated there grew by about 20% versus 2001 with an employment growth rate of 17%. Productivity per person employed also grew by 2.4%.

The importance of private SMEs in the foreign trade of Bulgaria is growing, too. In 2002 private SMEs accounted for 25.2% of exports of goods, while their share in 2001 was 23.4%. Private SMEs participation in imports was 38.4% in 2002 and 34.1% in the previous year. Among individual classes, most significant was the share of enterprises with 10-49 employed.

The average size of private SMEs, measured by the number of persons employed per enterprise, slightly increased – from 3.6 individuals in 2001 to 4.0 in 2002. In all the classes, the average size was closer to the lower limit of the class – enterprises in the class of 1-9 employed had on average 2.1 persons employed, enterprises in the class of 10-49 employed had on average 19.4 employed, and in the class of 50-99 – 69.5 employed.
### Table 7. Comparative data of SMEs in EU-15, candidate countries and Bulgaria, 2001

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<tr>
<td>Total number of enterprises, thousand</td>
<td>13447</td>
<td>742</td>
<td>29</td>
<td>36</td>
<td>58</td>
<td>56</td>
<td>1417</td>
<td>71</td>
<td>37</td>
<td>205</td>
<td>202</td>
<td>300</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Micro (1-9), %</td>
<td>90.6</td>
<td>94.6</td>
<td>78.5</td>
<td>76.9</td>
<td>81.5</td>
<td>51.0</td>
<td>96.5</td>
<td>91.0</td>
<td>92.0</td>
<td>90.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small (10-49), %</td>
<td>7.9</td>
<td>4.4</td>
<td>17.8</td>
<td>18.9</td>
<td>14.9</td>
<td>40.2</td>
<td>2.4</td>
<td>23.4</td>
<td>6.2</td>
<td>7.3</td>
<td>9.9</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Medium-sized (50-249), %</td>
<td>1.2</td>
<td>0.9</td>
<td>3.3</td>
<td>3.7</td>
<td>3.2</td>
<td></td>
<td>0.9</td>
<td>5.2</td>
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</tr>
<tr>
<td>Large(250+), %</td>
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<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td></td>
<td>0.2</td>
<td>0.3</td>
<td></td>
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<tr>
<td>Turnover, EUR billion</td>
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<td>185</td>
<td>18</td>
<td>18</td>
<td>22</td>
<td>121</td>
<td>409</td>
<td>44</td>
<td>47</td>
<td>33</td>
<td>38</td>
<td>77</td>
<td></td>
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<tr>
<td>Micro (1-9), %</td>
<td>18.4</td>
<td>19.6</td>
<td>23.3</td>
<td>13.7</td>
<td>7.6</td>
<td></td>
<td>28.2</td>
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<td>23.0</td>
<td>23.7</td>
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<tr>
<td>Small (10-49), %</td>
<td>19.2</td>
<td>20.6</td>
<td>31.0</td>
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<td>20.5</td>
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<td>13.5</td>
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<td>20.5</td>
<td>21.3</td>
<td>20.0</td>
<td></td>
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<tr>
<td>Medium-sized (50-249), %</td>
<td>18.9</td>
<td></td>
<td></td>
<td></td>
<td>21.3</td>
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<td>21.5</td>
<td></td>
<td></td>
<td>16.9</td>
<td>21.0</td>
<td></td>
<td>19.9</td>
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<td></td>
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<tr>
<td>Large(250+), %</td>
<td>43.5</td>
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<td>37.0</td>
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<td>39.6</td>
<td>34.0</td>
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<tr>
<td>Value added, EUR billion</td>
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<td>6</td>
<td>4</td>
<td>23</td>
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<td>5</td>
<td>5</td>
<td>17</td>
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<tr>
<td>Micro (1-9), %</td>
<td>20.1</td>
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<td>6.2</td>
<td></td>
<td>25.4</td>
<td>20.7</td>
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<td>11.5</td>
<td>11.8</td>
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<tr>
<td>Small (10-49), %</td>
<td>19.0</td>
<td>16.0</td>
<td>25.8</td>
<td></td>
<td>15.7</td>
<td></td>
<td>10.7</td>
<td>14.9</td>
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<td>12.7</td>
<td>14.8</td>
<td>12.9</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Medium-sized (50-249), %</td>
<td>17.9</td>
<td></td>
<td></td>
<td></td>
<td>25.4</td>
<td></td>
<td>18.6</td>
<td>17.4</td>
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<td>19.0</td>
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<td>21.1</td>
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</tr>
<tr>
<td>Large(250+), %</td>
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<td>45.3</td>
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<td>57.8</td>
<td>54.4</td>
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<td>Employed, thousand</td>
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<td>3535</td>
<td>356</td>
<td>496</td>
<td>699</td>
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</tr>
<tr>
<td>Micro (1-9), %</td>
<td>27.7</td>
<td>31.2</td>
<td>21.5</td>
<td>20.8</td>
<td>10.4</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Small (10-49), %</td>
<td>21.5</td>
<td>18.3</td>
<td>28.6</td>
<td></td>
<td>21.7</td>
<td></td>
<td></td>
<td></td>
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<td>16.4</td>
<td>17.0</td>
<td>18.9</td>
<td>14.9</td>
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<td></td>
</tr>
<tr>
<td>Medium-sized (50-249), %</td>
<td>16.3</td>
<td></td>
<td></td>
<td>25.5</td>
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<td></td>
<td>21.6</td>
<td>21.9</td>
<td>21.7</td>
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<tr>
<td>Large(250+), %</td>
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<td></td>
<td></td>
<td></td>
<td>35.3</td>
<td>33.5</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: For Bulgaria: Own calculations based on NSI data
For EU and applicant-countries: Eurostat; Statistics in focus; Industry, trade and services; Theme 4-5/2004; SMEs in the candidate countries, Manfred Schiemann

### Table 8. Structure of basic indicators of private non-financial enterprises (sectors C through K) by size classes, 2001 – 2002, %

<table>
<thead>
<tr>
<th></th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
<th>250+</th>
<th>SMEs 1-99</th>
<th>50-249</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>2001 Number of enterprises</td>
<td>92.4</td>
<td>6.0</td>
<td>0.8</td>
<td>0.5</td>
<td>0.2</td>
<td>99.2</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Number of persons employed</td>
<td>31.7</td>
<td>19.8</td>
<td>9.7</td>
<td>13.8</td>
<td>24.9</td>
<td>61.2</td>
<td>23.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Number of employees</td>
<td>19.1</td>
<td>22.8</td>
<td>11.5</td>
<td>16.6</td>
<td>30.1</td>
<td>53.3</td>
<td>28.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Turnover</td>
<td>27.9</td>
<td>24.7</td>
<td>8.1</td>
<td>11.1</td>
<td>28.2</td>
<td>60.7</td>
<td>19.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Output</td>
<td>17.4</td>
<td>18.7</td>
<td>8.2</td>
<td>13.7</td>
<td>41.9</td>
<td>44.3</td>
<td>21.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Value added at basic prices</td>
<td>16.9</td>
<td>17.7</td>
<td>9.6</td>
<td>15.2</td>
<td>40.7</td>
<td>44.2</td>
<td>24.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Labour costs</td>
<td>12.2</td>
<td>17.5</td>
<td>10.1</td>
<td>17.8</td>
<td>42.4</td>
<td>39.8</td>
<td>27.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Gross investments in fixed assets</td>
<td>18.7</td>
<td>21.0</td>
<td>9.7</td>
<td>15.5</td>
<td>35.1</td>
<td>49.4</td>
<td>25.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>15.0</td>
<td>17.8</td>
<td>8.8</td>
<td>15.3</td>
<td>43.1</td>
<td>41.6</td>
<td>24.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: NSI and own calculations
5. SMEs by sectors

Structural characteristics of private small and medium-sized enterprises\(^1\) by industrial sectors are presented with their shares according to the following indicators: number of enterprises, number of the employed, turnover, value added at basic prices, fixed assets. (Table 9). According to all the 6 indicators highest concentration is observed in the industry “Trade, repair of motor vehicles and personal and household goods”, followed by “Manufacturing”. Insignificant are the shares in “Mining and Quarrying” and “Electricity, gas and water supply” (for almost all indicators below 1%).

Figures 8 through 13 in Annex II illustrate the sector distribution of indicators in each size class.

Distributions by industries are rather similar for the following indicators: number of enterprises, number of persons employed and employees in the size classes. Distributions of value indicators – turnover, value added and fixed assets, however, differ considerably both compared to numerical indicators and among themselves for each size class.

By number of enterprises – in 2002 most SMEs were concentrated in the sector “Trade, repair of motor vehicles, personal and household goods” – over half of all SMEs. Second came the “Manufacturing” sector where about 12% of all SMEs are concentrated. The next sector with most SMEs was “Hotels and Restaurants” with about 1/10 of all SMEs. Smallest was the share of SMEs in “Mining and quarrying” and “Electricity” due to the nature of these sectors. Most attractive for the small and medium-sized business were the sectors related to exercising of trading activities, restaurants and hotels running, as well as manufacturing.

Examined in its dynamics, the number of SMEs in 2002 decreased by 2 734 or 1.4% versus 2001. By classes this decrease resulted from the reduced number of micro-enterprises (by 5 014 or 2.7%) while in the other two classes the number of enterprises is going up – in the class of 10-49 employed by 2 151 or 17.7% and in the class of 50-99 employed by 129 or 7.7%, respectively. In the smallest group (1-9) a decrease obtained for most of the sectors, the most significant being the one in “Trade, repair of motor vehicle, personal and household goods” (-2 623). An increase of the number of enterprises is observed only in the “Construction” sector (+369) and “Real estate, renting and business services” (+379) which suggests an attempt towards diversification of activities and focusing on other sectors with a higher development potential.

Unlike micro-enterprises, the ones in the class of 10-49 confirm their positions exactly in the sectors “Manufacturing” and “Trade, repair of motor vehicle, personal and household goods”, increasing their number by 860 and 651, respectively.

Distribution of the number of persons employed in SMEs among individual sectors indicates that again the highest share was the one concerning SME workers employed in the sector “Trade, repair of motor vehicle, personal and household goods”, followed by the “Manufacturing” sector. Most insignificant is the share of workers employed in SME in the “Mining and quarrying” sector and energy – far below 1%.

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\(^1\) Further on in the presentation by sectors and by regions in chapter one it is the private SME that are referred to.
In contrast to the decreasing number of enterprises, the number of the persons employed increased substantially – by 60,978 individuals in 2002 versus 2001 or by 8.3%. By classes, most significant was the increase of the employed in enterprises with 10-49 employed (+18,104 or by 20.6%) and with 50-99 employed in the Manufacturing sector (+7,041 individuals or 11.2%) and in enterprises with 1-9 and 10-49 employed in the sector “Trade, repair of motor vehicles, personal and household goods”, respectively by 5,067 individuals (2.5%) and by 11,655 individuals (15%). This fact suggests that it is in the manufacturing industry and trade that small (10-49) and medium-sized (50-99) enterprises generated the highest employment levels due to expanding business.

In all the sectors the average number of persons employed per enterprise in the three classes of SMEs was close to the lower limits of the class. Due to the predominant number of enterprises in the class with 1-9 employed in all sectors, the average number of persons employed in all SMEs was also very low – hardly 4 individuals. Compared to 2001 (3.6 individuals), the average number of employed in SMEs increased but by very little. Changes by sub-classes were insignificant.

The differences in the average size of SMEs, measured through the average turnover per enterprise were much larger between individual classes of enterprises than among individual sectors. The average turnover of a private enterprise in 2002 was BGN 316 thousand. This indicator was lower for private SMEs – BGN 194 thousand. By industries and classes in the sector of SMEs, the highest turnover was achieved in the electricity, gas and water supply sector – over BGN 3 m. Lowest was the turnover in the sector “Hotels and restaurants”. By classes, highest was the turnover achieved by enterprises with 10-49 employed in the sector “Electricity, gas and water supply”.

The other indicator of the size of SME is fixed assets per enterprise. The average amount of fixed assets per one SME was about BGN 39 thousand. In the individual classes and by industries, the least fixed assets per enterprise were observed in the sector “Trade, repair of motor vehicles, personal and household goods” in the class of micro-enterprises – a bit over BGN 8 thousand. This indicator has the highest value in the class of micro-enterprises with 10-49 employed in the sector “Hotels and restaurants”.

A general rule in comparative competitiveness of private SMEs by classes and sectors is that in the larger classes there was a higher ratio of value added to output. The fact that in the sector “Hotels and restaurants” micro-enterprises have the highest share of value added was probably due to relative advantages of the smallest business exactly in this sector.

Productivity in most of the sectors was also higher in the larger classes of companies. Relatively few differences obtained in the productivity rates in the SME classes in the “Manufacturing Industry”, “Construction” and “Real estate, renting and business activities”. Highest was the productivity in the SME class of 50-99 in the sector “Electricity, gas and water supply” and in the same size class in the sector “Trade, repair of motor vehicles, personal and household goods”.

Gross operational profitability varied considerably both among the industries in a certain class of enterprises and among the classes in an industry. It is only in the “Construction” industry that gross operational profitability in all the three classes of SME was rather similar. The levels are close in the first two classes (1-9 and 10-49 employed) in the sector “Trade, repair of motor vehicles, personal and household goods” and in the same classes in “Hotels and restaurants”.

The lowest share of labour costs in the value added (38.1%) belonged to SMEs in the sector “Trade, repair of motor vehicles, personal and household goods”. Among the individual classes of SMEs the lowest was the share of labour costs, respectively highest share of gross operating surplus, in the “Construction” industry in micro-enterprises. In the class of 10-49 employed this was the “Transport, storage and communications” industry, and in the class 50-99 – “Electricity, gas and water supply” sector.

Higher levels of costs were observed in larger classes of enterprises also with labour costs per individual employee. Labour costs per employee are lowest in the sector “Hotels and restaurants”, “Manufacturing”, “Trade, repair of motor vehicles, personal and household goods”.

With gross investments per person employed it is not possible to conclude that there existed a general correspondence between the value of the indicator and the size of the class, as done for the above indicators. Such a correspondence is observed, however, with fixed assets per employed. It is interesting to note that in “Electricity, gas and water supply” and “Real estate, renting and business activity” smaller classes of enterprises had higher values of gross investments per employed, as well as fixed assets per employed.

6. SMEs by planning regions

Structural characteristics of small and medium-size enterprises by planning regions reveal a rather uneven territorial differentiation (Table 10).

According to all the six indicators (number of enterprises, number of persons employed, number of employees, turnover, value added, fixed assets) the concentration was highest in the South-West planning region, followed by the South Central one. North-East and North Central regions had similar shares which in turn were twice to three times lower than those in the South-West region. The South-East and the North-West regions had the lowest contribution in the SME characteristics by planning regions, the differences between them being from two to five times, and the differences between the North-West...
and the South-West are from 6 to 20 times. Over 50% of the enterprises, of employment and of the activities of SMEs (turnover, value added and fixed assets) were concentrated in only two of the 6 planning regions – South-West (from 30.8% to 47%) and South Central (from 18.0% to 22.8%).

Table 10. Structure of basic indicators of private non-financial enterprises (sectors C through K) by planning regions, 2001 – 2002, %

<table>
<thead>
<tr>
<th>Code of region</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Turnover</th>
<th>Value added at basic prices</th>
<th>Fixed assets</th>
</tr>
</thead>
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<tr>
<td></td>
<td>2001</td>
<td>2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME 1-99, Private sector</td>
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<td>100.0</td>
<td>100.0</td>
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<td>100.0</td>
</tr>
<tr>
<td>North-West NW</td>
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<td>2.5</td>
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<tr>
<td>North Central NC</td>
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<td>North-East NE</td>
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<td>14.6</td>
<td>14.4</td>
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</tr>
<tr>
<td>South-East SE</td>
<td>10.9</td>
<td>9.1</td>
<td>8.2</td>
<td>10.4</td>
<td>7.4</td>
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<td>South Central SC</td>
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<td>22.1</td>
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<tr>
<td>South-West SW</td>
<td>29.3</td>
<td>34.4</td>
<td>36.2</td>
<td>45.5</td>
<td>44.3</td>
</tr>
</tbody>
</table>

Source: NSI and own calculations

About 1/3 of all small and medium-sized enterprises were concentrated in the South-West region, over 1/3 of the persons employed in SMEs were here. Small and medium-sized enterprises in the South-West region accounted for 47% of the total SMEs turnover, generated 46% of the value added and possessed 46% of the fixed assets of SMEs.

At the other extreme were the SMEs in the North-West region – hardly 4.7% of SMEs are located here, they employed a bit over 4% of the persons employed in SMEs. They accounted for only 2% of the turnover, their share in the SME value added was almost insignificant (2.5%).

One of the explanations of the existing differences in SME characteristics was connected to the condition and efficiency of large enterprises in the regions. There were two large enterprises in operation in the South-East region which provide the possibility for SMEs cluster formation around them. At the same time in the North-West there were almost no working large enterprises to create environment for development of business and existence of SMEs.

Differences in the average size of enterprises among various regions in a certain class were insignificant compared to the differences among individual classes in each one of the regions. The North-West region had lowest average indicators per enterprise, and the South-West region had the highest average SME size. The average number of the persons employed in a SME in the South-West region was highest compared to the other regions – 4.5, lowest was the average number of persons employed in a SME in the South-East region – 3.3 individuals. At the same time, the South-East region is distinct with the highest average number of persons employed per enterprise in the class 50-99 employed – 72.1. These are probably surviving old enterprises still in operation.

The size of enterprises measured through the average turnover per enterprise indicates that the highest turnover of one SME was realized in the South-West region – BGN 297 thousand, and the lowest turnover was realized by the SMEs in the North-West region – BGN 83.1 thousand.

Polarization is observed again with the comparative competitiveness indicators among the different regions. Such polarization is best expressed in the labour productivity indicator - the North-West region had the lowest levels in all the three SME classes (BGN 2 392), and the productivity was highest in the South-West region (BGN 5 832).

The highest share of value added in the output belonged to SMEs in the South Central region, followed by the SMEs in the North-East region. The lowest share of value added in the output belonged to the SMEs in the South-West region where large companies (over 250) have the highest share of value added in the output.

Profitability was highest in the North-East region. The share of labour costs in the value added was highest with SMEs in the North-West region, labour costs per employee were highest in the South-West region (BGN 3 368). SMEs in the South-West region possessed most fixed assets per person employed – close to BGN 5 000, i.e. twice as much than the North-West region.

Interesting trends are observed in the changes of the number of enterprises, number of persons employed and employees in 2002 versus 2001. The number of SMEs increased only in the North-West region, though insignificantly (0.1) and in the South-West region – more significantly (3.5%). Reasons are varied – apparently, the environment for entrepreneurship development in the North-West region and implementation of projects focused on SMEs here gradually encouraged local business and allowed it to start catching up on its lagging, while the South-West region kept on its successful development. In these two regions the number of persons employed grew at the fastest rate (10%), and the number of employees growth rate in the North-West region was the highest (16.1%). Nevertheless, the absolute values of these changes differed in times in favour of the South-West region. The number of enterprises decreased in the remaining regions.
What is notable is that in all regions, except for the South-West, the number of micro-enterprises is going down. Greatest was the reduction of the number of enterprises in this class in the South Central region (-4 038 or 8.8%). In the South-West region the increase of the number of enterprises in the smallest size class was 1 340 or 2.5%. A positive change was that despite the decrease of the number of enterprises in this size class, in all the six regions there was an increase of the number of employees in the enterprises of the same class. This suggests stabilization and strengthening of business and its orientation to efficient and flexible forms of organization.

In all the six regions the number of the enterprises increased in the class 10-49 employed. Parallel to this, highest absolute and relative changes are observed in this class in the number of persons employed and number of employees in all the six planning regions. Enterprises in the class 10-49 employed seem to be the most dynamically developing ones also because of the fact that, without exception, in each of the six planning regions the highest values of gross investments in fixed assets per person employee are in this class.

With these facts in mind it should be noted that unlike sector differentiation, which seems normal as far as it is supposed to reflect the tendency of small business towards certain types of activities, the substantial territorial differentiation of enterprises almost does not change among the individual classes, and thereby evidences significant differences in the attractiveness of individual regions for development of small and medium-sized business.

The existing territorial characteristics of SMEs are unfavourable for the development of some regions, for the reduction of differences and disproportion among them, and for the territorial integration of the country. They require targeted regional policy and a specific approach to SMEs in the less developed regions.

7. Participation of SMEs in foreign trade

In only a year, the number of small and medium-sized enterprises (SMEs) involved in foreign trade operations increased by 10.4% (from 17 192 to 18 976). Thus, their share in the total number of enterprises grew from 8.4% to 9.4%, and in the aggregate of enterprises involved in the foreign trade business – from 92.5% in 2001 to 93% in 2002. These are enterprises almost entirely in the private sector (99.4% in 2001 and 99.7% in 2002). Largest was the share of micro-enterprises (1-9 employed) but the trend was towards reduction of their importance. It is at their expense that the share of small enterprises (10-49 employed) increased. The accelerated rate of growth of the number of small enterprises in the foreign trade business (14.2% for a year – from 4 597 to 5 252) indicates that small enterprises were increasingly focusing on active involvement in international exchange. Large enterprises (over 100 employed) maintained their former numbers.

As regards the value of commodity exchange realized by SMEs the trend is towards increase but at a slower rate compared to other enterprises. Thus, for instance, in 2001 they accounted for 36.5% of the total volume of commodity exchange, and in 2002 their share reached 38.2%. The increase of commodity exchange realized by SMEs for a year is 15.8%, but if enterprises of size class 100-249 employed are added the increase is more than twice. As a result the share of large enterprises (over 250 employed) shrank from 50% to 35.6% within a year.

SME participation in imports was more significant than the one in exports and this trend is preserved for the last two years. Thus the share of SMEs in imports grew from 43.4% in 2001 to 45.7% in 2002 and the value of their purchases increased by 16.7% versus a total increase of imports by 10.7%. Their share in exports grew from 27.4% to 28.3 % thanks to the increased exports volume by 14% within a year. Having in mind that the number of SMEs involved in foreign trade operations grew by only 10.4% we can conclude that enterprises operating on the international market confirmed their positions and increased the average volume of concluded transactions (both in exports and imports). This applies in particular to medium-sized enterprises where the exports volume grew by 30%, and imports – by 27% with a rather modest increase in number of companies (by 14.2% and 7.8%, respectively).
85% of all SMEs involved in foreign trade were oriented towards imports. They were fairly unevenly distributed by size classes. The major group among these were micro-enterprises – about 66%, and small enterprises of size class 10 to 49 employed – about 28%. Despite the active involvement of micro-enterprises in import operations, small enterprises had a higher relative share in the import value.

As regards SMEs participation in the total exports, it is far more modest. Their share in the group of enterprises with foreign trade operations increased from 40% in 2001 to 42% in 2002. Distribution of both the number of enterprises and the average volume of transactions was more even and almost unchanged within a year. The average volume of exports realized by an enterprise grew twice, moving from one size class to the next one. Thus, for example, the average volume of exports of micro-enterprises was about BGN 230 thousand, of small enterprises – BGN 450 thousand, and of medium-sized ones – BGN 900 thousand. At the same time, the next size class (100-249 employed) demonstrated exceptional dynamics – the number of enterprises realizing exports grew slightly (by 5%) while the value of their exports doubled; so was the average export of an enterprise (from BGN 2 m in 2001 to BGN 4 m in 2002). This fact points to the relatively weak export potential of SMEs (up to 100 employed) and to the possibility of increasing the importance of the sector if the EU definition is applied. Furthermore, a clear trend is being outlined of decreasing share and importance of large enterprises (over 250 employed) from the point of view of number of enterprises and volume of realized exports.

Figure 3. Share of SMEs by size classes realizing export in 2002, %

Unlike exports, where large enterprises (over 250 employed) still hold the largest (though decreasing) share (58.6% in 2001 and 46.5% in 2002), in imports, SMEs equalized their share with the one of large enterprises in 2001 (over 43%) and then in 2002 outdid them considerably (45.7% share of SMEs versus 27.3% of large enterprises with over 250 employed).

The accelerated growth within a year only of small enterprises involved in foreign trade, as well as their substantial weight in the value of exports and imports points to their flexibility and potential to make use of their advantages occupying small niches of the market or joining larger production or trading chains. The medium-sized enterprises class (50-99 employed) shows weaker growth and better positions in exports, while micro-enterprises deal better with imports. Another specific feature arises with relatively larger (for Bulgarian criteria) enterprises (100-249 employed) whose foreign trade business doubled within a year while their number grew by only 4.5%. Undoubtedly, these are the foreign trade leaders of the country that take over the business of many large enterprises (over 250 employed) and establish themselves on the market through their better ability to manoeuvre and higher competitiveness. When these enterprises enter the group of SMEs under the EU definition, the picture will be rather different.

Statistical surveys data outline one more fact: most of the enterprises conduct both export and import operations. Pure exporters (that conduct only exports) were hardly 38% of all SMEs exporting products to foreign markets, while pure importers were a bit over 70% of importing SMEs. In both cases their share decreased at the expense of enterprises performing both export and import.

Geographic orientation of foreign trade operations

The affirmative European orientation of Bulgaria can be demonstrated most clearly by the share of EU Member States in the total value of exports and imports. Only within a year (2001-2002) exports to EU grew by 13% and their share in the total Bulgarian exports increased from 58% to 59.3%. The SME sector, however, registered much higher dynamics – its exports to EU grew by 27% within a year and its share in this export increased from 25.8% to 29%. Thus, the SME sector followed the general trend, and in 2002 the EU was already a user of over 60% of the products exported by SMEs compared to 54.5% in 2001. Particularly high was their share in exports to Greece (over 40%), as well as to Italy and Germany (about 25-30% each). The trend is towards gradual equalization of the shares.

A specific feature of SMEs exports to the EU is the relatively even distribution among size classes, as well as the maintenance of the ratio among them. These were enterprises that had already established themselves firmly on the European market and thanks to their counter parties on this market they can maintain their positions.

The SME sector is very well presented in the exports to the Balkan countries, its share rising from 34.5% of the Bulgarian exports to this destination in 2001 to 41.1% in 2002, and the value of exported products growing by 13.6%. As a result, exports to the Balkan countries increasingly concentrates in the SME sector. In 2001 micro-enterprises were strongly committed to these exports, accounting for slightly more than 50% of the SME exported products while in 2002 most of the exports were realized by small enterprises.
With all the other geographic destinations, the SME share in exports decreased at the expense of exports achieved by the class of larger enterprises (100-249 employed). Nevertheless, the SME group remains an important supplier of export products to the Arab countries (37% of the total exports to these countries in 2002), as well as to CIS (32.2%) and CEFTA (23.5%). Almost along all destinations, small enterprises realized the highest volume of exports (within the SME group).

Another characteristic feature in the exports of the different classes of enterprises was the firm establishment of the relatively larger enterprises (100-249 employed) along all destinations. Only within a year their exports grew by over 70%. These are the enterprises capable of manufacturing and offering to the foreign markets a sufficient volume of products in compliance with the high quality requirements, established good production practices, as well as sustainability of supplies.

The picture with imports is a bit different – EU, CEFTA and Turkey provided more than three fourths of supplies to SMEs. EU was the major supplier (with 60% in 2002). Unlike exports, SME share in the total import from the EU was much higher – 50.7% in 2001 and 52.7% in 2002. The SME group has even a greater weight with imports from CEFTA (54% and 61% in 2001 and 2002, respectively), from the Balkan countries (49% and 61%), and from Turkey (53% and 55%, respectively).

An interesting peculiarity is that in the import from Germany the SME share exceeds 50%. This group of enterprises was the major importer also from Greece and Italy with a share between 40% and 50%. The reason was the existence of many joint ventures operating for both the domestic market and for export under processing agreements (imported materials are processed and the finished goods exported).

Another specific feature is the establishment of small enterprises (10-49 employed) as the major group of importers from all the geographic destinations. In 2001 micro-enterprises played a major role in the trade with Turkey and the Arab countries, in 2002 the weight shifted to the larger size classes. An interesting case is that of the importers from CIS – in 2001 about 80% of the exports (mainly raw materials and energy resources) were realized by large enterprises (over 250 employed). As a result...
of restructuring of the major importers of raw materials, and the changes made in their organizational structure in 2002, the share of large enterprises dropped below 15% while enterprises with 100 to 249 employed already had a 70% share of the imports. This is the most dramatic change that occurred in 2002. Thus only with the imports from the Arab countries the SME share remains lower than the one of large enterprises.

Figure 7. Distribution of imports from EU in 2002 by size classes (in %)

Sector concentration

The product structure of exports made by SMEs is highly concentrated in two main sectors – trade and manufacturing (over 97% as a total). If in 2001 the trade sector exceeded by 1/5 the manufacturing industry sector in the SMEs exports, in 2002 their shares became almost equal. However, while in the trade sector SMEs accounted for about 90% of the total export in the sector, with the export of manufactured products their share was hardly 15-16%. Their positions in these two sectors are not only traditionally strong, but they also follow a trend of strengthening. Only within a year (2001-2002) the SME share in the export of manufactured industrial goods grew from 15.1% to 16.7%, and in trade – from 88.4% to 91 %, i.e. exporters from the SME group focused predominantly on trade. As a counterweight to these, the enterprises of the size class 100-249 employed doubled their exports of industrial products and became the major exporters of manufactured industrial products. In the other sectors, SME presentation was rather weak: about 1% and below. Though very little in volume, export in the construction sector was also carried out mainly by SMEs (91% in 2002).

The successful specialization of SMEs in trade is confirmed by the fact that over half of the export was realized by micro-enterprises, and when adding small enterprises to them – the export volume exceeded 90% of the total exports accomplished by SMEs. As regards the other sector with greater SME participation – the manufacturing industry, there the classes of small and medium-sized enterprises had almost equal shares.
Although SMEs participation in import is much more substantial than in export, their activities remain concentrated in the same two sectors – trade and manufacturing, with a trend of increase of the first at the expense of the latter. Despite the strong concentration, SME participation in the import of products from the other sectors was much larger than in export. Moreover, in addition to the trade sector where SMEs accounted for 85% of the total import, this group of enterprises was the main importer, too, in the sectors of construction (75%) and real estate transactions (84-93%).

Figure 11. Distribution of imports by SMEs by sectors (% in 2002)

Figure 12. SMEs share in the total import by sectors (% in 2002)

As regards distribution of imports by size classes in 2001 and 2002, in nearly all sectors small enterprises (10-49 employed) played a major role, their share coming close to 50% or even exceeding it. Micro-enterprises performed best in the sectors of trade, transport and real estate transactions. An interesting case was realized by the class of enterprises of 100 to 249 staff – its share in imports grew more than twice within only a year, exclusively at the expense of the manufacturing industry sector. In 2002 over 40% of the import of manufacturing industry products was carried out by this class, provided their number increased insignificantly.

Figure 13. Distribution of import of industrial products by size classes (%)

Figure 14. Distribution of import in the trade sector by size classes (%)

As regards distribution of imports by size classes in 2001 and 2002, in nearly all sectors small enterprises (10-49 employed) played a major role, their share coming close to 50% or even exceeding it. Micro-enterprises performed best in the sectors of trade, transport and real estate transactions. An interesting case was realized by the class of enterprises of 100 to 249 staff – its share in imports grew more than twice within only a year, exclusively at the expense of the manufacturing industry sector. In 2002 over 40% of the import of manufacturing industry products was carried out by this class, provided their number increased insignificantly.

Great differences by sectors in the contribution of SMEs outline their place in the foreign trade activity of the country. Overall, with the speeding up of restructuring processes of large enterprises (some of which are still state-owned or with state interest), as well as with the introduction of the European definition of SME, their role will be strengthened considerably. The share of large enterprises in both exports and imports shows a clear trend of decrease but this is rather at the expense of enterprises in the size group of 100-249 employed than of the group of SMEs (using the current definition). This trend is particularly expressed among exporters and importers of manufactured industrial products. In the remaining sectors the trend is towards shifting the activity to SMEs.

8. Direct foreign investments in SMEs

**FDI importance for the condition of the sector**

Strengthening and expansion of the production and foreign trade activity of SMEs depend to a great extent on accessible financial resources. Under the conditions of a restructuring economy and banking system, with inadequately functioning market mechanisms and a lack of internal financial resources, the influx of foreign direct investments becomes an important factor for the SME sector development. Foreign investments not only provide the required financing, but also play a significant role for the modernization of production and management processes of enterprises and raise their competitiveness. They ensure a more direct link with the international market
and create conditions for expansion abroad since a part of the products of recipient enterprises is designated for export.

Without capital investments from foreign companies, most of the SMEs are not able to create by themselves and develop internationally competitive production capable of ensuring goods and services for export. Producing export products on this basis results in expansion of trade both in the line of export, and import of the required investment goods, interim products, and services, mainly on behalf of the investor. Thus, giving rise to trade and changing its structure, foreign investments help the establishment of SME positioning in the national economy and encourage SME expansion on the international markets.

**Share of investments in SMEs – total and by size classes**

SMEs account for over 90% (93.9% in 2001 and 92.3% in 2002) of all enterprises in which capital has been invested in 2001 and 2002, and in almost all cases these are private sector enterprises. Although the number of SMEs conducting foreign trade operations is growing, and it is logical to assume that a part of this activity is related to production inspired by foreign capital, over the examined period the number of SMEs that attracted investments decreased by 1.5%. At the same time, large enterprises of the two size classes (100-249 and over 250 employed) that received foreign investments, increased by more than 25%. A major recipient of foreign capital in the SME group are micro-enterprises, but there exists a clearly expressed trend of reduction of their share in the total number of SMEs that attracted investments at the expense of small and medium-sized enterprises.

**Volume of investment in SMEs and changes**

From the point of view of the value of attracted investments, SMEs take a much smaller share – 33.3% in 2001 and 31.8% in 2002. The growth of attracted investments to the sector was close to 32% only within a year, though their share in the total volume of investments decreased. This resulted from the faster growth (by 38%) of the total volume of investment inflows into the country. It is rather natural that here the share of large enterprises is predominant, namely, those with more than 250 employed. Within a year only, investments in this class of enterprises increased by more than 50%. This means that investors focused on both large enterprises whose advantage is the economy of scales, and on SMEs, which are more flexible and capable of finding out and occupying specific niches on the market.

**The distribution of the volume of investments among the three size classes – micro, small and medium-sized, is considerably more even than that of the number of capital investments.** Highest growth (by 51%) is observed with medium-sized enterprises. The average investment per enterprise in the SME sector increased, too – from BGN 150 thousand to BGN 200 thousand, the highest growth being observed with micro-enterprises – over 32% (from BGN 76.8 thousand to BGN 101.7 thousand). This fact could be assessed as very favourable for the development of micro-enterprises and their firm establishment in the Bulgarian economy. It is logical to expect that the capital investments made will result in their increased share in country’s production and trade.

The available information does not give a clear notion what are the industries and activities to which FDI in SMEs are directed. The general information on the FDI inflow to Bulgaria, however, allows for some conclusions to be drawn. Overall, foreign investments in the Bulgarian economy were directed mainly to industry, banking, trade, and telecommunications. The surveyed aggregate of SMEs excluded two of these areas (banking and telecommunications). It is logical to assume that the FDI inflow to the SME sector is mainly directed to enterprises in industry.
and trade. It is not clear, however, what the volume of capital investments is in export-oriented industrial production and in high technology sectors, which are very much relied upon for the increase of commodity exchange and decrease of trade balance deficit. The geographic structure of investments in Bulgaria is closely related to the one of trade – major investors are the largest trade partners of the country: Germany, Greece, Italy, Belgium, and Austria. Companies from these countries are the most common partners to Bulgarian SMEs in setting up joint ventures.

Basic conclusions

Micro-enterprises (1-9 employed) are predominant among small and medium-sized enterprises in Bulgaria, though small enterprises (10-49 employed) have the highest potential.

In 2002 the number of SMEs was over 200 thousand or 90% of all non-financial enterprises. A major characteristic of the small and medium-sized business in Bulgaria in 2002 continued to be the great number of micro-enterprises which, however, had a very low average employment level (2.1 employed per enterprise) and low labour productivity, which was twice as low compared to both the class of small and the class of medium-sized enterprises. The number and share of micro-enterprises in 2003 was decreasing compared to the previous year. At the same time, the number and share of enterprises with 10 to 49 employed was increasing, and these demonstrate highest growth potential among SMEs (1-99).

The positive dynamics of small enterprises (10-49) is an indication of the availability of specific advantages in the organization of production, namely in this size class compared to both the class of the smallest and the class of medium-sized enterprises. For instance, micro-enterprises were 12 times more plentiful than small enterprises, but the number of employed in micro-enterprises was hardly 37% more than those in small enterprises. Even more striking is the potential of small enterprises (10-49) to offer jobs. Thus, in 2002 the number of individuals hired in the 14.7 thousand small enterprises was 274.6 thousand, and exceeding by 30% the number of individuals hired in the 183.7 thousand micro-enterprises (211.8 thousand hired individuals), and representing twice more than the number of people hired in medium-sized enterprises. In addition, it should be noted that fixed assets of SMEs were concentrated in the class of enterprises with 10 to 49 employed – their fixed assets exceeded by 42% the assets of micro-enterprises and by 96% the assets of medium-sized enterprises.

The structural contribution of enterprises with 10 to 49 employed, measured by their share in the overall aggregate of non-financial enterprises, increased in 2002 versus 2001 by all examined indicators. Such an increase can be assessed as substantial on the background of the rather modest increase of the contribution of enterprises with 50-99 employed and the reduction for most of the indicators of the share of the other size classes. A special note is required on the changes of the shares of enterprises with 10-49 employed according to the following indicators: the share of their number increased from 6.2% to 7.3%, the share of the employed – from 17% to 18.9%, of the hired – from 18.8% to 20.8%, of turnover – from 20.5% to 21.3%, of value added – from 12.7% to 14.8%. Most substantial was the increase of the share of small enterprises in the gross investments in fixed assets – from 15.7% to 20.7%.

The structural importance of public small and medium-sized enterprises is insignificant.

Out of whole amount of 200 thousand small and medium-sized enterprises only 900 or 0.4% were public in 2002 and their share decreased from 0.6% in 2001. The share of the employed in public SMEs decreased from 3.7% to 2.6% of the employed in all SMEs, from 5.1% to 3.4% of the hired, from 1.3% to 1% of the turnover, from 2.6% to 2.0% of the output, from 3.7% to 2.0% of gross investments; though fairly higher as a level the share of fixed assets decreased, too – from 10.5% to 6.3%.

It is a fact, however, that the share of value added of public SMEs increased, though insignificantly – from 3.6% to 3.7%; in addition, the higher values of the indicators value added per unit of production output, visible labour productivity and gross operational profitability of public versus private SMEs are an evidence that the remaining state-owned and municipal SMEs had stabilized and even increased their indicators of competitiveness in the new market environment.

Trade continued to be the most attractive sector for development of private small and medium-sized business followed by the manufacturing industry.

More than half of the private SMEs are concentrated in the trade sector, 12% of the enterprises operate in the manufacturing industry, a little over 10% are the enterprises involved in real estate, renting and business services, as well as hotels and restaurants running. 40.2% of the total number of employed in private SME and 35.1% of the hired are in the trade sector. This sector accounts for 68.1% of the turnover of private SMEs; it generates 41.1% of the value added. It is worth mentioning that compared to 2001 the structural importance of the trade sector in the indicators number of enterprises, employed, hired and in particular value added decreased, though slightly, in favour of the sectors of manufacturing industry and construction.

Large territorial disproportions in the characteristics of small and medium-size business in Bulgaria are preserved.

In territorial terms, the South-West planning region remained the most attractive one for the development of small and medium-sized business. Over 30% of private SMEs were located in this
Employment in SMEs increases. In 2002 the employed in SMEs counted for 817 thousand individuals, and the hired are 620 thousand of them (54 thousand employed and 64 thousand hired more than in 2001). Small and medium-sized enterprises employed 54% of the employed and paid salaries and wages to 47% of the hired in the non-financial sector. A clear trend of increasing SME contribution in employment is in place – SME shares in the number of employed and hired grow by about 2 percentage points compared to the previous year.

In 2002 versus 2001 the number of employed in private SMEs had grown by 61 thousand and amounted to 795 thousand individuals or 62.6% of the employed in all private enterprises. Almost 320 thousand was the number of employed in trade, 210 thousand of them were hired; 228 thousand were the employed in the manufacturing industry, 205 thousand of them were hired. It should be noted that these two sectors are distinguished with the highest absolute growth of the number of employed and hired, employment growth in the manufacturing industry exceeding growth in trade. As regards changes in employment levels in private SMEs in territorial terms, it is worth noting that in all planning regions, over 50% of the growth of the number of employed and hired was concentrated in small enterprises (10-49).

The average number of the employed in an enterprise was very low – for all the small and medium-sized enterprises it was 4 individuals. In each of the size classes according to the number of employed, the average number of employed per enterprise was close to the lower limit. In the class of micro-enterprises (1-9) the average number of employed per enterprise was 2.1, in the class of small enterprises (10-49) the average number of employed per enterprise was 19.4, and in the class of medium-sized enterprises (50-99) – 69.5 individuals.

SMEs are a source of fast economic growth. Value added of SMEs grew faster than the value added of all enterprises in the surveyed range and faster than the value added of the economy as a whole.

In 2002 small and medium-sized enterprises generated value added at the amount of BGN 3 556.3 m, which represents 34% of the total value added generated by all enterprises in the non-financial sector versus 31% in the previous year.

The ratio between SME value added and the gross domestic product of the country represents a telling measure of SME contribution to the total result of the economic activity in Bulgaria. In 2002 SMEs share in GDP was 11%, which is 0.7 percentage points higher than its share for the previous year. An appropriate measure of SMEs contribution to the generation of value added in the economy is considered to be the ratio between SME value added and the total value added generated in the economy. In 2002 this ratio was 14.1% or 1 percentage point higher compared to the previous year.

According to our assessment, the real annual growth rate of value added in small and medium-sized enterprises in Bulgaria in 2002 exceeded 13%. This growth rate is 4 times faster than the one of all non-financial enterprises, and almost two and a half times faster than the growth rate of the value added for the economy as a whole. Over 90% of the value added of all the SMEs was generated by private SMEs. The growth potential of small and medium-sized enterprises was confirmed by the fact that the real annual growth rate of private SMEs value added in 2002, assessed at 13.6%, was almost twice as fast as the value added growth rate of all private enterprises in the surveyed range.

Higher labour productivity rates are observed in enterprises with more employed. This finding is confirmed both by sectors and by planning regions.

The real growth rate of labour productivity per employed individual in SMEs (5.9%) was faster compared to both the whole group of examined enterprises (0.5%) and the assessment of the growth rate of labour productivity in the overall economy (4.7%). The faster growth rate of labour productivity was achieved in the enterprises with higher number of employed – thus, with micro-enterprises productivity grew by 3.6%, with small enterprises – by 4.9%, and the fastest was the growth rate in the class of medium-sized enterprises – by 6.9%.

Openness of the economy exercises a positive impact on the SME sector and their share in the total number of enterprises involved in foreign trade operations is increasing.

Their substantial weight in the value of export and import points out to their flexibility and potential to make use of their advantages. The class of medium-sized enterprises (50-99) showed a more stable growth and better positions in export while micro-enterprises (1-9) were better represented in import. The greatest dynamics were observed by relatively larger enterprises (100-249) whose foreign trade business doubled within a year while their number increased by only 4.5%. The reason lies in the ongoing restructuring of many of the large enterprises (over 250), as well as in the better ability to manoeuvre of this type of enterprise, which has adequate capacity but no complicated structures. When these enterprises
join the group of SMEs in compliance with the new definition, the picture of the sector will look better.

Unlike their potential to conduct foreign trade operations, SMEs are not attractive enough for foreign investors and they account for about 1/3 of attracted investments. Micro-enterprises were the major recipient of foreign capitals in the group of SMEs. A clearly expressed trend of downsizing their share in the total number of SMEs attracting investments existed and it was at the expense of small and medium-sized enterprises. Large enterprises still remained more attractive to investors.
Chapter two

INSTITUTIONAL FRAMEWORK FOR SME DEVELOPMENT

1. European Integration and SMEs

1.1. European Charter for Small Enterprises

The Lisbon summit in 2000 assigned to the European Union the ambitious task of becoming the most competitive and dynamic knowledge-based economy by 2010, capable of ensuring sustainable economic growth, more jobs and better social cohesion. The European Charter for Small Enterprises adopted by the EU Council of Ministers in June 2000 defines the EU policy towards the sector of small enterprises based on the assessment that they are the backbone of European economy and the key to its competitiveness.

Bulgaria, together with all the other EU membership candidate-countries, joined the European Charter for Small Enterprises, thus declaring its desire to contribute to the accomplishment of the goal set in Lisbon. Each country, signatory to the Charter, submits an annual report of its progress in the implementation. So far, Bulgaria has submitted two reports – in September 2002 and September 2003.

The European Charter for Small Enterprises indicates 10 specific areas of action in which all signatories to the Charter have committed to undertake the required actions to encourage entrepreneurship. These areas are as follows:

- education and training for entrepreneurship;
- cheaper and faster start-up;
- better legislation and regulation;
- availability of skills;
- improving on-line access;
- benefiting from the advantages of the common European market or more out of the Single Market;
- taxation and financial matters;
- strengthening the technological capacity of small enterprises;
- successful e-business models and top-class small business support;
- more effective presentation and protection of small enterprises’ interests at EU and national level.

According to the EC report on the implementation of the European Charter for Small Enterprises by the EU candidate-countries presented in Brussels on 21 January 2003, small enterprises in these countries are to a great extent assessed as underdeveloped. New businesses are found mainly in the sector of services and innovation businesses are almost absent. The life cycle of companies in the candidate-countries is shorter than the one of the companies in the current EU Member States. Limited access of small enterprises to finance is perceived as one of the significant barriers to the economic development and prosperity in these countries. The European Commission underlines that small enterprises in the candidate-countries have not developed entrepreneurial spirit and still do not have sufficient means to get to know their needs and capacity. Progress is observed in the area of administrative services to businesses, but the need for enhancing the efficiency of public administration at all levels is stressed.

The major recommendations in the EC report in the 10 areas of action are as follows:

- In the area of education and training for entrepreneurship candidate-countries are recommended to encourage introduction of a subject on entrepreneurship as early as in primary school curriculum, which is to be further developed in the secondary school. Universities should teach specialized courses in entrepreneurship. In addition, candidate-countries should encourage development of projects by young people outside school curriculum with a special stress on the important role of the media in promotion of entrepreneurship culture.
- In the area of cheaper and faster start-up EC recommends EU membership candidate-countries to set up a transparent, stable and predictable legal and administrative framework, which is vital for the survival and development of new companies. Further efforts are needed to reduce the number and complexity of documents and procedures for company registration. A better utilization of information technologies is recommended, especially for the introduction of on-line registration and ensuring connections with all public institutions that work in support
to SME. In order to extend the life of the newly established small businesses in the countries of South-Eastern Europe, it is recommended to set up training programmes, financial incentives, monitoring systems and special motivation programmes for young people and women.

- In the area of improved legislation and regulation the EC recommends further efforts to improve the legal framework for the development of business and, in particular, small business. It is important to assess the impact on business of each regulatory act adopted. What is crucial is the involvement of the business community in the assessment of current legislation and drafting of laws to improve the environment for development of small business.

- In the area of developing entrepreneurial skills the EC recommends to find the proper balance of the number of required specialists with narrow and broad range of entrepreneurial skills. Development of communication and coordination networks among training organizations may prevent or reduce duplication of functions and subjects in the entrepreneurial skills training. Candidate-countries are recommended to encourage the provision of scholarships, making use of e-learning techniques and setting up of clusters in order to play an active role in the process. Small companies should build up training capacity within the enterprise to ensure their own survival and development.

- In the area of on-line access the EC recommends the candidate-countries to exert further efforts in the development of on-line services in order to better respond to the needs of business. More efforts are required to shift from the first generation of Internet services to fully interactive services.

- In order to make more out of the Single Market (make use of the opportunities provided by the Common Market to the business), candidate-countries need to comply with the commitments undertaken in the accession negotiations process.

- In the area of taxation and finance EC recommends creation of tools like loan guaranteeing schemes or new guarantee schemes based on public-private partnership and on the principles of security, cooperation with banks, guarantees and risk sharing. Attention should be paid to start-up and small businesses, interest rates and collateral requirements are to be reduced and micro-crediting should be encouraged. The countries applying for EU membership are recommended to encourage the use of non-traditional financial instruments like venture capital, start-up capital in small companies. “Shareholder’s culture” is expected to develop with the increase of entrepreneurial skills and promotion of entrepreneurship.

- For the strengthening of the technological capacity of small businesses the EC recommends the development of national innovation policies that should develop inter-company cooperation and clusters. What is crucial for the development of small businesses is to encourage their cooperation with research institutes.

- For the creation of successful e-business models and ensuring top-class business support candidate-countries are recommended to develop the legal framework for the development of e-commerce, to study the best practices in business services providing in the current EU Member States and to assess regularly the quality and efficiency of the services provided by the public administration to the business.

- In order to develop more powerful and more effective presentation of small businesses’ interests at EU and national level candidate-countries should pay special attention to the social partners and get them involved in developing the policy to enterprises. It is necessary to encourage the involvement of small business organizations in the drafting of laws in the area of small business since they know best their specific needs.

EC recommendations on the actions to be undertaken by the countries applying for EU membership in order to promote entrepreneurship and to respond to businesses’ needs are fully valid and should underlie the specific programmes of the governments over the next years.

1.2. European Programmes in Support of SMEs

From the start of transition from centrally planned to market economy the countries from Central and Eastern Europe have relied on the intensive cooperation and support of the European Union. On the one hand, they receive assistance for the overall political and social and economic transition towards a functioning market economy, and on the other hand they receive support in their preparation for EU accession.

Support to small and medium-sized enterprises is rendered along several major lines: via improvement of policies, rules and laws; via improvement of the business environment and investments in infrastructure and human capital; by enhancing the role of business agencies and associations; and through direct financial aid.

Small and medium-sized enterprises receive financial assistance under the three pre-accession programmes of the European Union – PHARE, ISPA and SAPARD. The PHARE programme provides funding for development of small and medium-sized enterprises, privatization, restructuring of enterprises, modernization of banking and financial services, adoption of appropriate legislation and development of services in support of business on local level. Under ISPA projects in the area of transport infrastructure and the environment are funded, and under SAPARD – agricultural projects.

Information about the outcomes of the projects in support of SME in Bulgaria under PHARE 2000 and PHARE 2001 indicates that the country does not still fully utilize the potential of these programmes to raise the competitiveness of SME. Two very important projects under the PHARE programme
were terminated, thus Bulgarian SME lost the opportunity to appropriate over EUR 12 million of targeted funds designed to improve competitiveness and export capacities of the manufacturing sector in the two targeted regions of the project – the North-Western and South-Central regions. The projects envisaged introduction of quality management systems and support to SME development through the setting up of six business incubators in regions of industrial decline. The lack of administrative capacity is one of the basic reasons for the poor management of the projects, resulting in the termination of the two projects BG 0004.01 “SME Quality Management Systems” and BG 0004.02 “Innovations in Business Incubators for Small and Medium-sized Enterprises in Regions of Industrial Decline”.

There are three functioning grant schemes of projects under PHARE 2001, agreed with the Delegation of the EC as of 30 November 2003. Funding and successful implementation of 89 projects is expected for small and medium-sized enterprises for technology transfer and innovations within Project BG 0102.01 “Consulting Services for SME and Technology Grant Scheme”; 49 projects for research and development of high-tech small and medium-sized businesses under the Grant Scheme for Research and Development and 19 projects in the area of cultural tourism.

The total amount of agreed grants under the project “Consulting Services for SME and Technology Grant Scheme” is EUR 3 436 163 (incl. PHARE funding and national co-funding), the average amount of a grant being EUR 38 608. Currently, 89 SMEs with signed grant agreements are in the stage of preparation of the tender documents for the bidding for equipment supplies. Consulting services to several dozens of SMEs are envisaged to be provided within the project framework in six areas: technology transfer and innovations, corporate governance, finance management, marketing, human resources management and production processes improvement.

Under the project BG 0102.02 “High-tech Business Incubator” only two of the components are effective: A Grant Scheme for Research and Development with a budget of EUR 7 m and Institutional Building for provision of technical assistance for management of the grant scheme for research and development with a budget of EUR 0.15 m. The 49 agreements signed on 30 November 2003 of a total value of EUR 3 112 529 (out of which under PHARE – EUR 1 142 232, national co-financing – EUR 380 744 and private co-financing – EUR 1 589 553) indicate that appropriation of funds under the Grant Scheme for Research and Development is below 50 %. The low level of national co-financing under the Grant Scheme for Research and Development, as well as the non-implemented project for setting up of six high-tech business incubators to support SME development in the area of high technology as a whole, give us grounds to conclude that the Government still does not undertake adequate measures to encourage innovations and technology development of SMEs\(^\text{12}\) to improve their competitiveness.

Small and medium-sized enterprises receive support from EU and under the Fourth Multi-annual EU Programme for Development of Enterprises and Entrepreneurship and, in particular, of small and medium-sized enterprises (2001 – 2005) which Bulgaria joined in 2002. The main goals of the programme are:

- enhancing growth and competitiveness of business in a globalised knowledge-based economy;
- encouragement of entrepreneurship;
- simplification and improvement of the administrative and legal framework of the business, especially for research, innovations and business start-up;
- improving financial conditions of businesses, especially in SME;
- providing better access of businesses to services, programmes and networks of EU and improving their coordination.

A major precondition for the promotion of entrepreneurship according to the Multi-annual Programme is the facilitation of access to various forms of financing throughout the life cycle of small and medium-sized enterprises. The specific financial intermediaries indicated in the programme are banks, guarantee funds, venture capital funds and business incubators. Three schemes are used for SME financing:

- Start-up Facility focusing on newly established small and medium-sized enterprises or such in the initial stage of development.
- SME Guarantee Facility providing counter guarantees in the cases of lending to micro, small and medium-sized enterprises to support their growth and to fund the purchase of IT equipment, software and providing training in relation to the use of Internet and e-commerce.
- Seed Capital Action, focused on starting up of innovation businesses with a capacity to grow and create jobs.

Procedures for participation of candidate-countries in the financial instruments of the Multi-annual Programme administered by the European Investment Fund were opened on 25 February 2003. In this relation Bulgaria became the host of the Fourth Round Table for Bankers and SME held on 8-9 May 2003 in Sofia. The most important outcome of this forum was the signing of an agreement between the European Investment Fund and the Encouragement Bank for the extension of a credit line at the amount of EUR 7 m to guarantee loans to small and medium-sized enterprises in Bulgaria. This is the first agreement for a credit line to SME signed by the EIF with a financial institution from a candidate-country for EU membership.

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\(^{12}\) Ref. Details in Chapter Five of the Report
Bulgaria actually takes part in the EU Multi-annual Programme for Development of Enterprises and Entrepreneurship 2001 – 2005 through the BEST initiative (Business Environment Simplification Task Force). The major goal of this initiative is to compare the conditions of doing business in the EU Member States and candidate-countries and to identify the best practices in the following five areas: education and training in entrepreneurship, access to funding, science and research, public administration and services, employment and working conditions. Upon the request of the European Commission Bulgarian experts were nominated to participate in the working groups on several projects within the Multi-annual Programme, and in October 2003 one of those projects completed successfully – “Best practices of Member States in Restructuring, Bankruptcy and a New Start”.

In practice, Bulgarian small and medium-sized enterprises make use of only one of the financial instruments provided by the Multi-annual Programme in support to the SME sector in the candidate-countries. There still do not exist in Bulgaria financial instruments focused on start-up small and medium-sized enterprises or such in the initial phase of their development and on start-up innovation businesses with a capacity to grow and create jobs. Nevertheless, financial intermediaries in Bulgaria – banks, guarantee funds, venture capital funds and business incubators, have the opportunity to utilize the potential of the other two facilities for SME funding provided by the EIF: the Start-up Facility and the Seed Capital Action. Since innovation and technological development are the main driver of the so-called “new economy” the government should further its efforts to improve access to funding to SME in the initial stage of their development and to high-tech SME capable of generating high value added.

Research and technological development of small and medium-sized enterprises are supported by the EU also through the so-called Framework Programmes. 2002 is the last year of operation of the Fifth Framework Programme of EC for research and technological development.

The Sixth Framework Programme of EC for Research and Technological Development (2002-2006) was officially launched on 12 November 2002 in Brussels. Its main objectives are the increase of investments (private and public) up to 3 % of GDP, development of the human potential, encouragement of innovation and research. The Sixth Framework Programme attributes special importance to the involvement of small and medium-sized enterprises since they have a decisive role for the enhancement of competitiveness of European economy and for the creation of new jobs. It is more flexible and provides opportunities for the involvement of SME in seven priority thematic areas:

- life science, genomics and biotechnology;
- information and communication technology;
- nanotechnology, nano-science, functional materials, new productions processes and methods;
- space research;
- food safety and quality;
- sustainable development, global changes of climate and eco-systems;
- citizens’ involvement in governing of knowledge-based society.

For the first year of operation of the programme Bulgaria has won about 80 projects. According to ASME preliminary data only 20 of these are for SME. It should be noted that the total budget of the Programme for the four-year period of operation is about EUR 17 billion, out of which EUR 2.5 billion are envisaged for participation of small and medium-sized enterprises in various instruments of the programme. Bulgarian SMEs’ participation in the Sixth Framework Programme of EC for Research and Technological Development (2002-2006) up to now could be evaluated as unsatisfactory. A major reason for the low SME activity to take part in the programme are the difficulties faced by the companies in looking for partners under the Sixth Framework Programme. Trying to eliminate this barrier, ASME applies with several projects under the programme, one of which is approved. The agreement on the project named “Activities in Support to SME’ Participation in Integrated Projects and Competence Networks on the Thematic Priority Life Science in the Sixth Framework Programme” is concluded with the European Commission, on the one hand, and on the other – with the International Cooperation Bureau (Austria). In its capacity of a partner under this project, to be launched in June 2004, ASME is expected to focus its efforts on capacity building and training of representatives of SME and research organizations for active and successful participation in the new instruments of the Sixth Framework Programme of EC.

The Multi-annual Programme for Development of Enterprises and Entrepreneurship and, in particular, small and medium-sized enterprises (2001-2005), as well as Pre-accession Funds and EU framework programmes provide additional possibilities for setting up and development of small and medium-sized enterprises in Bulgaria. The government support to the sector in this area is related to dissemination of information on the current European projects in the area of SME, development of programmes for training of entrepreneurs in writing project proposals to apply for funding and ensuring the required partnership of SME to find partners for the projects. All these functions can be implemented successfully also by business associations and non-government organizations in support of SME. A targeted cooperation needs to be developed among government institutions, business associations and non-governmental organizations. A similar partnership may assist Bulgarian small and medium-sized enterprises to make use of the potential of European sources of funding for the sector.
2. General Characteristics of the National Policy on SME Development

Up until 6 or 7 years ago practically there was no legislation in Bulgaria focused on the SME sector, nor were there any organizations and institutions to support the establishment and development of small and medium-sized enterprises. Taking into consideration the important role of SME for the development of national economy, over the last years the Government started to provide targeted support to the sector. It is expressed in the establishment of an Agency for SME in 1997, in charge of the development and implementation of a government policy in the area of SME; adoption of the SME Act in 1999 giving for the first time clear definitions of the concepts of "micro", "small" and "medium-sized" businesses; and the adoption in 1998 of the first National Strategy for Promotion of SME Development in Bulgaria (1998 – 2001) with a Working Programme to it.

The government policy for development of the SME sector in Bulgaria during 2002 – 2003 can be characterized as consistent but not sufficiently active and effective. In 2002 and 2003 steps were undertaken towards improvement of the business environment but there are still no signs of considerably improved conditions for doing business. The government support to small and medium-sized enterprises in 2002 is manifested by the National Strategy for Promotion of SME Development over the period 2002 – 2006 with a Working Programme adopted by the Council of Ministers (28 March 2002); by Bulgaria’s joining the Multi-annual programme for enterprises and entrepreneurship and, in particular, small and medium-sized enterprises (2001-2005) by Decision N 185 dated 1 April 2002 of the Council of Ministers; and by the country joining the European Charter for Small Enterprises on 23 April 2002.

The National strategy for promotion of SME development over the period 2002 – 2006 is mainly aimed at creating favourable environment and conditions for development of a competitive sector of small and medium-sized enterprises to speed up country’s economic growth with maintaining macro-economic stability. Most valuable in this Strategy is the clear definition of seven major priority areas of government intervention:

- simplification of the administrative and legal environment for SME;
- improvement of the financial environment;
- support to innovations and technological development;
- Europeization and internationalization of SME;
- Improved access to information and services;
- Ensuring conditions for SME development in regional terms;
- Encouragement of entrepreneurial spirit and skills.

The Strategy lays stress on the role of institutions. Creating favourable environment for SMEs is the responsibility of the government, of non-governmental organizations and the whole society. An integral part of the Strategy is the Working Programme for its implementation, which formulates short-term (by the end of 2002), mid-term (2003-2004) and long-term (2005-2006) initiatives corresponding to the above priorities. Specific measures and actions are also identified for the accomplishment of the goals of the National Strategy, as well as the institutions in charge of their implementation. The policy for encouragement of SMEs is an integral part of the overall industrial policy of the government. Therefore, the synergy between the Working Programme to the National Strategy for Promotion of SME Development and the Industry 2002 Programme and the Management Programme of the Government can be assessed as positive. The priorities of the National Strategy are defined precisely and reflect to a great extent the current state and major problems faced by the SME sector in Bulgaria. What remains unclear for the present is the financial security of its implementation since there are no budget funds explicitly designated for realization of the identified measures.

In 2003 the government support for promotion of the SME sector development is mainly related to the more active role of the Agency for Small and Medium-sized Enterprises in the organization of information workshops and public debates on the issues facing the SME sector; to the draft law on promotion of investments in small and medium-sized enterprises submitted to the Parliament; and the drafting of amendments to the SME Act aimed at raising the thresholds for the definition of "micro", "small" and "medium-sized" enterprises to render these in conformity with European concepts.

The assessment of the European Commission of the SME sector, formulated in the last report on country’s progress (November 2003) shows that Bulgaria has made fairly limited progress in the improvement of business environment. Feeble progress has been observed in the further development and application of an integrated approach in the policy to enterprises since the adoption of the National Strategy for Promotion of SME Development over the period 2002-2006. The European Commission recommends:

- to ensure more intensive and structured involvement of private sector representatives in the debates on the measures within the policy to SME;
- to enhance the efficiency of the administrative and judicial systems;
- to continue the efforts to create incentives for legalization of economic actors operating in the grey economy;
- to render assistance to export oriented SME to meet the requirements of the Single Market of EU;
- to provide adequate resources and funds to the Agency for SME to fulfill its task to prepare the Bulgarian SME sector for EU integration;
- to strengthen the capacity of the public administration for implementation of large scale programme in support of SMEs with the aid of external donors;
- the Ministry of Economy and the Agency for SME to undertake more active role in developing the capacity of business associations and ensuring transparent
consultations on all issues related to SME policies affecting their members;

- Bulgaria to render its definition of SME in conformity with the recommendations of EC.

3. SME Act/Act on Promotion of Entrepreneurship

The Small and Medium-sized Enterprises Act was passed as late as in 1999 (Official Gazette 84/1999), i.e. 10 years after the start of transition from centrally planned to market economy and 2 years after the setting up of the Agency for small and medium-sized enterprises. The law stipulates the public relations concerning the implementation of the government policy for encouragement of starting up and development of small and medium-sized enterprises and regulates the legal and financial environment for sustainable development of the SME sector.

Pursuant to this law micro-enterprises are the small enterprises of an average staff up to 10. Small are the enterprises that have an average staff of up to 50 and annual turnover up to BGN 1 m or the value of its fixed assets is less than BGN 800 thousand. Medium-sized are the enterprises with an average staff of up to 100 and annual turnover less than BGN 3 m or the value of their fixed assets is less than BGN 2.4 m.

In order to fall in the category of SME, enterprises should be independent. Such are sole proprietors and companies or cooperatives, in which not more than 25 % of the capital or the votes in the General Assembly are owned by one or more persons that do not meet the requirements of SME. Those that cannot be small and medium-sized enterprises are public companies in the meaning of art. 83a of the Act on Securities, Stock Exchanges and Investment Companies, neither enterprises that by trade perform banking or insurance transactions, deal in securities, organize gambling games or produce and trade in wine and spirits.

In the European Union the concept of “small and medium-sized enterprise” (SME) is formally introduced by the EC Recommendation dated 3 April 1996. According to its definition micro-enterprises are businesses with an average employed staff up to 10 persons. Small enterprises are the ones with a staff of up to 50 persons and annual turnover up to EUR 5 m. Medium-sized are considered to be enterprises with up to 250 hired labour and annual turnover not exceeding EUR 27 m. There is one more restriction – only 25 % interest is allowed in small and medium-sized enterprises for companies, which do not belong to this group.

The planned amendments in the SME Act provide for harmonization of the Bulgarian SME definition with the EU one in compliance with EC Recommendation of 3 April 1996. This is one of the requirements to Bulgaria in the negotiation process for EU accession and a recommendation made by the EC long ago. The new higher financial thresholds for SME will not expand considerably the range of enterprises in Bulgaria that could make use of possible relieves and programmes on national and international level but the harmonization of SME statistics between Bulgaria and EU Member States will allow more accurate analyses of the sector.

The draft law envisages the following new financial thresholds for the formulation of the concept of small and medium-sized businesses in compliance with the Recommendation of the European Commission of 3 April 1996:

- Small enterprise shall be a business with an annual turnover up to BGN 13 m and fixed assets up to BGN 9 m.
- Medium-sized shall be a business with a staff of up to 250 employees, annual turnover up to BGN 52 m or fixed assets value up to BGN 78 m.

The legislative amendments are expected to optimize also the administrative structure in view of improved implementation of the measures undertaken to encourage SME sector development.

Statistics show that over 99% of enterprises both in Bulgaria and in the EU fall in the category of SME. These enterprises are the backbone of the European economy, therefore, the EU has for years now rendered targeted state support to the SME sector along the following lines:

- provision of free and subsidized business and information services;
- creating favourable business environment;
- exchange of best production practices;
- encouragement and subsidizing of research and development;
- subsidizing technological audit;
- subsidized vocational training;
- encouragement and subsidizing of investment activities;
- encouragement of associations and development of the links among SME from various countries, members of an union;
- encouragement of e-commerce and Internet marketing.

It is well known that the European Union is generally against state subsidies to economic activities but subsidizing SME is one of the exceptions of this rule with regard to the relevance of these enterprises for the European economy. The Bulgarian SME Act also identifies a number of measures for promotion of the start-up and development of SME:

- financial assistance for their operations;
- guaranteeing a portion of the credit risk on targeted loans to small and medium-sized enterprises;
- development and implementation of programmes for small and medium-sized enterprises;
- information and consulting services to small and medium-sized enterprises;
- access to public procurement bidding as stipulated in the Public Procurement Act;
- educational projects for vocational training and acquisition of entrepreneurial skills;
Often costs resulting from such lawmaking are not justified. Results in higher costs for the business related to compliance. Contradictory. Inadequate quality of adopted pieces of legislation that the government legislative initiative is consistent and non-

Almost half of the surveyed SMEs (44.3%) do not consider the environment in order to adapt to it and develop their business. Negative impact on their attempts to foresee the future legal promotion of entrepreneurship, which is a prerequisite for their development and financing schemes outside the banking laws.

At the end of 2003 the government approved the draft law on amendments to the Small and Medium-sized Enterprises Act, renamed into Act on Promotion of Entrepreneurship. The idea of this law is to apply the world experience related to delegation of rights from the governmental to non-governmental organizations, i.e. introduction of the rules of public/private partnership. An important objective of the new law is the provision of a complete package of public services at one location. To this end it is envisaged to set up the Agency for Small and Medium-sized Enterprises and the Executive Agency for Promotion of Trade into an Executive Agency for Promotion of Entrepreneurship under the minister of economy. Encouragement measures are provided for setting up of small and medium-sized enterprises, putting in place mechanisms in support of small businesses and enhancing their competitiveness.

The Ministry of Economy is supposed to formulate, coordinate and control the government policy in support of the SME sector, and the Agency for Promotion of Entrepreneurship is to supervise the implementation of the National Strategies and Working Programmes for promotion of entrepreneurship adopted by the Council of Ministers. It is the first time that a clear distinction has been made of the role and functions of different government bodies on the formulation, coordination, control and implementation of the government policy for promotion of entrepreneurship, which is a prerequisite for their more efficient operation.

The results of the survey among small and medium-sized enterprises in October 2003 carried out by Estat agency show entrepreneurs’ assessment of the policy to SMEs. What is interesting is the attitude of SME representatives to the legislative process in Bulgaria. About two thirds (60.5%) of the interviewed managers of small and medium-sized enterprises think that laws are changed rather frequently, which has a negative impact on their attempts to foresee the future legal environment in order to adapt to it and develop their business. Almost half of the surveyed SMEs (44.3%) do not consider that the government legislative initiative is consistent and non-contradictory. Inadequate quality of adopted pieces of legislation results in higher costs for the business related to compliance. Often costs resulting from such lawmaking are not justified.

Despite the adoption of important pieces of legislation over the last years, which are of strategic significance for the development of small and medium-sized enterprises (for instance, the first and the second National strategies for promotion of SME development with Working programmes to them), their practical implementation is impeded. According to representatives of the small and medium-size business there is a mismatch between adopted pieces of legislation and actually implemented programmes.

About one third of the interviewed SME representatives (32.8%) think that the government does not encourage sufficiently business development. Additional measures are required to enhance trust in the government support to the SME sector.

Most of company managers see a chance for the development of their business and increased competitiveness through participation in targeted programmes and projects of the central and local administration. Highest need for participation in similar programmes is observed with the smallest companies. At the same time, hardly 7% of them have had similar participation over the last 3 years. Development by local authorities of targeted programmes and projects towards the development of the SME sector is a successful measure to resolve local social problems and to boost the competitiveness of local business.

4. National Organizations in Support to SMEs

Over the recent years non-governmental organizations play a very active role both in the formulation of the policy for promotion of small and medium-sized enterprises development in Bulgaria and in the organization of public debates on the problems in the SME sector and EU challenges to them. Business associations set up in support of SME still do not protect actively the interests of SMEs and do not adequately perform one of their major functions – to inform their members of legislative changes affecting the SME sector, European requirements to small and medium-sized enterprises and available programmes on national and supra-national level in support of the sector. It is necessary to both strengthen the capacity of local and central public administration and to encourage non-governmental organizations’ involvement in the law-making process and information and consulting services to the business. Coordination between the public administration, business associations and non-governmental organizations operating in support of the sector needs to be improved and encouraged.

The major institutions of the government sector operating in support of SME are:

- Agency for Small and Medium-sized Enterprises

The Agency for small and medium-sized enterprises was set up in the mid of 1997 and initially it was under the Ministry of Industry, and with the adoption of the SME Act in 1999 it was attached to the Council of Ministers as an institution developing
and implementing the government policy for promotion of SME. The SME Agency develops the drafts of the National Strategy for Promotion of SME Development in Bulgaria and the Working Programme to it. It has six regional offices in Bourgas, Varna, Vidin, Plovdiv, Rousse and Sofia. The main functions of the Agency for small and medium-sized enterprises are the following: coordination; improvement of the legal framework for SME; financial support to SMEs, information and consulting services and international cooperation.

With the SME Act coming into effect an Advisory Board for small and medium-sized enterprises was set up as a consultative government-public body to support the activity of the agency in identifying policy priorities for encouragement of the start-up and development of SME, to analyse their condition and to make proposals for the elaboration of the Annual Report on SME, to provide public access to information of legislative initiatives. It comprises representatives of ministries, chambers, unions and branch associations.

► Executive Agency for Promotion of Trade (EAPT)

The Executive Agency for Promotion of Trade was established in December 2001 as a government executive agency with the Ministry of Economy. EAPT combines the experience and traditions of the Institute of Trade found in 1963 with those of the Export Promotion Center found in 1997. EAPT hires qualified experts with qualification and experience in the area of international and national economic relations, commodity markets and market studies. EAPT works in close cooperation with many government institutions, industrial associations, firms, universities, research institutes, etc. EAPT provides free assistance to local and foreign companies but in future some of the services will be paid for. With the adoption of the draft of the Act on Promotion of Entrepreneurship, the Agency for Small and Medium-sized Enterprises and the Executive Agency for Promotion of Trade are expected to merge into an Executive Agency for Promotion of Entrepreneurship with the Ministry of Economy, the aim being to achieve better coordination between the government institutions in support to SME and to avoid duplication of functions.

► Bulgarian Agency for Export Insurance AD (BAEI)

The Bulgarian Agency for Export Insurance AD provides services that allow Bulgarian exporters to offer their international customers deferred payment at a reduced risk. It was established in October 1998, the government being the major shareholder with 99% capital interest. The goal of BAEI is to support Bulgarian exporters on international markets. BAEI has signed cooperation agreements with over ten commercial banks. It is an analogue of the agencies for export insurance in developed countries that have been in existence for decades.

► Foreign Investments Agency (FIA)

The Foreign Investments Agency is a government body with the Council of Ministers for coordination of government institutions activities in the area of foreign investments. FIA renders assistance for the encouragement, attraction and support to foreign investments and priority investment projects. FIA supports the activities of central and local authorities, Bulgarian and foreign individuals and legal entities in the implementation of investment projects; it keeps and maintains the Unified Information System on Foreign Investments where data is collected on the foreign investments in the country. FIA maintains a database with projects of Bulgarian SME looking for foreign partners.

► Employment Agency

The Employment Agency is a body for the implementation of the government policy for encouragement of employment, protection of the labour market, professional information and consulting, vocational and motivation training of unemployed and employed, as well as for intermediation for information and job finding.

The main business associations in the non-government sector working in support to SME are:

► Bulgarian Chamber of Commerce and Industry (BCCI)

The Bulgarian Chamber of Commerce and Industry offers a wide range of services to companies like registration of foreign trade operations, consultations on foreign trade regimes, tax and finance consultations, formulation of quotations, assistance for visa issues for business trips, issue of ATA carnets. BCCI is particularly active towards integrating Bulgarian business in the country’s EU integration processes.

► Bulgarian Industrial Association (BIA)

The Bulgarian Industrial Association supports, encourages and represents the interests of its members, and at the same time it works for the development of international economic cooperation. It is based on the principles of voluntary membership, independence and self-financing. The Association works for the promotion of ethics in business relations

► National Association of Small and Medium-sized Businesses

The Mission of the National Association of Small and Medium-sized Businesses is to assist for the establishment of favourable economic environment for development of small and medium-sized enterprises and raising their competitiveness. In the course of accomplishing its mission the association represents its members in the dialogue with the central and
local authorities, and partnership with all government and non-government organizations and institutions. Parallel to this, the Association provides various services to its members like training and qualification raising for managers, information services, development of business plans and investment projects, tax, accounting and legal advise, consultations in borrowing applications, etc.

➢ Bulgarian Association of Regional Development Agencies and Business Centers (BARDA)

The Bulgarian Association of Regional Development Agencies and Business Centers was set up on 1 July 1997 by 7 agencies for regional development as a uniting organization of independent regional agencies and business centers to assist small and medium-sized enterprises and regional development in Bulgaria with the support of EEC/ILLO/GOPA. Currently BARDA comprises 33 agencies and business centers (18 regular and 15 associate members) located in all regions throughout Bulgaria. It works in close contact with the government and other public and private organizations on issues related to the regulatory framework on small and medium-sized enterprises, competition policies, regional development, investment policies, support to businesses, restructuring of production, etc.

➢ National Chamber of Crafts (NCC)

The National Chamber of Crafts was established in 1998 by national and regional branch organizations with the objective of coordinating and implementing a common policy among its members, giving opinions and proposals to competent institutions and participation in regulations drafting, assistance in vocational training and qualification of craftsmen and promotion of the prestige of crafts, facilitating links among its members and government and public bodies in national and international terms.

The most active research centers and institutes from the non-government sector in Bulgaria working in support to SME are:

➢ The Center for Economic Development (CED)
➢ The Center for the Study of Democracy (CSD)
➢ The Institute for Market Economy (IME)
➢ The Economic Policy Institute (EPI)
➢ The Foundation for Entrepreneurship Development (FED)

Main Conclusions:

• The government is aware of the important role of the SME sector for increasing the competitiveness of Bulgarian economy, but there are still no effective encouragement measures for establishment of small and medium-sized enterprises, neither there are any built-up mechanisms in support to small business.

• Since the adoption of the National Strategy for Promotion of SME Development for the period 2002 – 2006 little progress has been made in the further development and application of an integrated policy approach to enterprises.

• Financial thresholds for micro-, small and medium-sized enterprises are still not rendered in conformity with the European ones.

• There are still no financial instruments in Bulgaria focused on start-up small and medium-sized enterprises or such in the initial stage of their development and start-up innovation businesses with a capacity to grow and create jobs.

• As from the beginning of 2002 a Guarantee Fund for micro-credits was launched under the MLSP but it is mainly socially oriented.

• Progress in the area of administrative barriers was made on municipal level where the “information desk for entrepreneurs” started to operate but this approach is still not applied by the central public administration.

• A drawback of the government policy in the area of SME is the lack of specific mechanisms to encourage SME development and financing schemes outside banking laws.

• Coordination among government institutions, non-government organizations and industrial unions in support of the SME sector is still not on a satisfactory level.

• Local and central authorities do not have adequate capacity to develop programmes and projects with the participation of SME, which impedes local, regional and national economic development.

• Bulgarian small and medium-sized enterprises are still not ready to cope with the competitive pressure of the market forces in the Single Market of EU.

Recommendations:

• Efforts are needed to further improve the business environment with a stress on some components of the institutional environment (the judicial system, business start-up, fight against corruption).

• It is necessary to build up a competent, unbiased and promptly acting public administration in support of SMEs.
• It is imperative to enhance the quality of information and consulting services by government bodies and institutions, so that SME representatives receive timely and complete information on legislative changes, European requirements to them and on existing funding programmes on national and supra-national level.

• It is extremely important that the regulatory framework be stable and predictable and institutions’ actions in support to SME be consistent and non-contradictory.

• The undertaken legislative initiative related to the Act on Promotion of Entrepreneurship and the draft of the Act on Promotion of Investments in SME should find prompt practical implementation.

• In addition to the Guarantee Fund with MLSP of mainly social orientation, a National Guarantee Fund in support of SME should be established, as well as municipal guarantee funds in order to encourage setting up and development of SME on local level.

• It is necessary that various instruments be invented to improve access to funding for SMEs in the initial stage of their development and for high-tech SMEs.

• ASME should focus its efforts on capacity building and training for SME representatives and research organisations for the active and successful participation in European programmes in support to the SME sector.

• Setting up of a single data base containing information on the condition and needs of the SME sector, and on the existing programmes and policies in support to the sector would help developing mechanisms and structures to adapt policies and programmes to the ever changing conditions and requirements of the dynamic SME sector.

• Better coordination is needed among all government and non-government institutions and organizations working in support to SME in order to avoid duplication of functions.

• The government should continue its efforts to encourage innovations and technological development in the sector; to put in place clear rules of administrative services; to facilitate SME access to public procurement; to improve the tax policy; to limit to the reasonable minimum procedures of permits, registration and licensing and to curtail the grey economy in the country.
Chapter three
ADMINISTRATIVE AND REGULATORY ENVIRONMENT FOR SME DEVELOPMENT

Development of competitive small and medium-sized enterprises (SME) entails adoption and implementation of a flexible legal and regulatory framework, a competent central and local administration, possibilities for rapid market entry and exit, intensive competition, access to finance, access to information and advanced technologies, enhanced labour force qualification, and infrastructure development, etc.

In their business small and medium-sized enterprises face difficulties in the above-mentioned areas. Major problems formulated by the representatives of SMEs in the specialized survey for the report are:

• difficulties in obtaining various documents for market entry and conducting business operations;
• difficulties in the work with the administration (central and local) which sometimes is insufficient and incompetent;
• existing corruption practices;
• unfair market competition;
• inhibited access to financial resources – entrepreneurs do not have sufficient own funds and their profit is insignificant for reinvestment in business development;
• inadequately developed infrastructure – transport and telecommunications;
• difficulties in introducing modern technologies;
• lack of market information and information about counterparts – external sources of information are rarely used;
• deficiency of qualified, loyal and disciplined labour force; and
• low purchasing power of the population.

Added to these factors is the lack of public positive attitude to entrepreneurs and underdeveloped public-private partnership on the national and local level.

This chapter deals with the problems related to administrative and regulatory environment – regulatory regimes, protection of competition, bankruptcy proceedings, treatment of business disputes, SME access to public procurement, and anti-corruption practices.

The other chapters of the report focus on major economic barriers to business – access to finance, access to information and advanced technologies, and problems related to internal resources for SME development.

1. Regulatory regimes and administrative reform

1.1. Regulatory regimes

Regulatory regimes aim to eliminate market inconsistencies for the purpose of safeguarding public interests. SME status is regulated in the following areas:

1) Establishment of SME as a legal entity: protective proceedings for company registration /sole proprietor with the commercial register of the District Court at its seat/. The average duration of such proceedings is about one week depending on the size of court area and adequacy of documents presented. The required documents for merchant registration are explicitly listed in the Commerce Act for all types of merchants. In Bulgaria the most widespread legal organizational form for conducting commercial activity by SME is the sole proprietor. The required documents for registration as a sole proprietor are: application, specimen of the signature of the merchant, declaration stating the applicant is not undergoing bankruptcy proceedings, declaration stating that the merchant has not been convicted of bankruptcy, etc.

Within 3 days from receipt of the court decision on registration the merchant shall file to the National Statistical Institute (NSI) an application for registration with BULSTAT (single register for identification of economic entities carrying out business on the territory of the Republic of Bulgaria). Registration with BULSTAT is very short – within one hour. The country has been

13 JOBS Project, analytical materials on the municipalities in Bulgaria – Velingrad, Razlog, Aitos, Gotse Delchev, etc.

applying (since 1998) a Unique Identification Number which is used by the National Social Security Institute (NSSI) as a social security number; since 1999 this number has been used by the customs authorities as well. Currently the NSI, the General Tax Directorate to the Ministry of Finance and the NSSI are working on the implementation of a single procedure for registration with BULSTAT, the National Tax Register and the Insurer Register.

- Registration with a territorial tax office.
- Registration with NSSI.

3) Entering into contracts with public institutions for using infrastructure services: electrical, power, telephone, water supply, postal, etc.;

4) Obtaining all documents necessary for using retail or production sites: construction permit, permit for use of construction, change in the intended use of farm land, etc.

The results from the surveys and discussions conducted within the focus groups (specialized study for preparation of the report on SMEs15, CED quarterly reports, OECD study, World Bank studies) reveal that the opinion of the representatives of small and medium-sized enterprises of regulatory regimes is still negative.

According to data from the latest specialized survey for the report on SMEs, conducted in October 2003, 80% of respondents define them as posing difficulties to entrepreneurs. Over 80% state that it is difficult to start up a new business in Bulgaria, and 49% of the respondents are convinced that administrative barriers are one of the obstacles to business.

According to OECD data, the average number of procedures for establishment and start up of operations of a limited liability company in Bulgaria is 10. The length of such procedures is 30 days and their cost is EUR 132. Data stated in the Global Competitiveness Report of the Global Economic Forum are similar to those quoted by OECD. The procedures for establishment and start-up of operations of a company take 27 business days and the cost of the procedures is USD 199.

It should be noted that the above figure does not include other related costs: legal services, notary costs, opening of bank accounts, etc., which in many cases lead to appreciation of procedures. According to World Bank data, in these cases costs may exceed USD 400 for local entrepreneurs and reach USD 6,023 for foreign investors and the length of procedures may reach 700 days, particularly when permits for construction and use of land are involved.19

According to SMEs, administrative obstacles could be classified in descending order as follows:

- number of procedures;
- length of procedures;
- cost of procedures;
- lack of good coordination between individual institutions participating in the process – at business start-up different institutions often require presentation of one and the same documents and forms which causes duplication of efforts.

The managers of SMEs specify as a major problem the great number of documents required for the start-up of a new business. In many cases these are complicated and difficult for completion forms, resulting in waste of time and resources. Surveys show that entrepreneurs obtain information for the required documents from different sources: Official Gazette, the outlets established in some municipalities for servicing business and citizens, and information and business centers. The ASME has created database where procedures and required documents are described in detail, thus facilitating the work of SMEs to a great extent.

During the past two years major steps were taken to improve regulatory regimes and create conditions for fair competition, to reduce barriers to start-up business that is predominantly small and medium-sized, to simplify rules and to reduce government intervention in economic activity.

In this line of reasoning, by Decision of the Council of Ministers No. 139 of 12 March 2002 an intergovernmental group was established and the ASME was determined as the coordinator of its activity. The expected positive effect from the activity of the Working Group is simplification of the license, permit and registration regimes. About 600 regimes were reviewed. By CoM Decision No. 392 of 7 June 2002 the proposals of the intergovernmental working group were approved, recommending removal and simplification of the regimes. The proposals covered over 300 regimes and envisaged removal, simplification or preservation in conformity with health and public safety requirements or implementation of certain EU legislative acts. The decision provides for removing 73 regimes and other 119 to be simplified. Currently secondary legislation is being amended in execution of this decision. As of early April 2004 144 regimes are in the process of removal and simplification or have already been removed or simplified, and no steps have been taken for the other 48 regimes, i.e. implementation is 75%. 20

15 For details on the specialized survey see the introduction to the report.
16 South East Europe region. Enterprise policy performance. A regional assessment, OECD, EBRD, October 2003, p. 28
17 Ibid.
19 Miroixet J., Neso O., Administrative barriers to Foreign Investment in Developing Countries, WB, May 2002
20 Ministry of Economy, Registration, License and Control Directorate, summary statement of the implementation of CMD No. 392/2002.
Another task is the development of a mechanism for introduction of a public Register of Regimes, which would facilitate significantly the procedures and reduce corruption conditions. A database of regulatory regimes was created as part of the Register of Administrative Structures and the Acts of the Executive Bodies and it is accessible via Internet since February 2003. The database contains detailed information on the regimes administered by central and local municipal bodies and enables entrepreneurs to receive fast information on regulatory requirements, administrative procedures, documents, required fees for obtaining license, and permit or registration.

An important step in optimizing the business environment is the drafting and adoption of the Restriction of Administrative Regulation and Administrative Control on Economic Activity Act. This involves formulation of general principles for imposing administrative procedures and compliance of effective and future regimes with these general principles. The essence of the Act is to regulate generally the relations between merchants and central and local bodies in terms of commencing, conducting and termination of economic activity. The positive effect of such an approach would be an improved business environment – creating more transparent and simplified rules for the business, common criteria for regimes introduction and cost reduction.

The working group responsible for the drafting of the Act included experts (lawyers and economists) from ASME, IME, BCCI, BIA. After prolonged debates the Restriction of Administrative Regulation and Administrative Control on Economic Activity Act was adopted by the National Assembly on 4 June 2003 and came into force in December 2003.

The Restriction of Administrative Regulation and Administrative Control on Economic Activity Act represents a new social contract between business and government. According to this Act, any regime shall be established by a legal act. It specifies 39 economic activities which require license regime. These are banking and insurance, pension insurance, some production activities, transport and trade, foreign trade, external trade in arms, ammunitions and goods of possible double use, manufacturing of compact discs, etc. The Act provides for licensing of medical establishments, trade in drugs, radio and television broadcasting, and communications.

Only the Central administrative body shall issue the license for all types of activities.

A key aspect of the Act is the introduction of the principle of silent consent of administrative bodies. This aims to constrain corruption possibilities and facilitate the procedures for commencing and conducting business. This principle is introduced for issuing permits and certificates of single transactions or actions and will be applied provided that no other provision envisages otherwise. Silent consent is in place when the administrative body has not taken a decision within the legally set term. In this case the interested party shall notify the administration that it starts conducting the relevant activity. From this point a new, 14-day term starts to run within which the administrative body may take a decision. If the latter continues to be silent, the transaction may be effected.

The Act provides in specific cases for the administrative body to suspend subsequently the action or the transaction and suspension is imposed until rectification of the breaches and may be appealed before the competent court.

The Act provides that in exercising their powers administrative bodies shall organize their activity in such a way as to service interested persons at one and the same place and office, i.e. another major principle of the Act aimed to save time and reduce corruption possibilities – the principle of the one-stop shop service.

A totally new aspect in Bulgarian legislation is the introduction of a provision that requires preliminary assessment of the impact of draft laws on the economic environment. In planning or drafting a law providing for introduction of licensing or registration regime the body that has proposed its inclusion in the CM legislation initiative programme shall prepare a motivated opinion of the need for such regulation. The argumentation shall be accompanied by a detailed economic analysis and assessment of the impact the regime would have on the economic activity. The persons for whom obligations or restrictions would arise by virtue of the new legislative act shall be notified before its adoption and their proposals and objections shall be heard.

This provision of the Act may be assessed as very positive as it enables much more transparency and predictability of business behaviour and a possibility for planning. This was one of the EU requirements which the lawmakers took into account.

The Act contains provisions on administrative fees. Information on these fees and the methodology for their calculation is to be provided by the administration.

In summary the main positive aspects of the Act are:

- introduction of license, registration and permit regime shall be effected by operation of a law;
- the list of economic activities for which license regime may be established has been approved (these economic activities number 39);
- preliminary assessment of the impact of tabled draft laws on business environment is mandatory;
- silent consent is introduced for single transactions;
- one-stop shop service is introduced; and
- the administration shall provide full and complete information on the terms, due fees and the methodology.

21 www.government.bg/1ras/
of calculation thereof, and assist in the completion of documents.

Expected positive effects from the introduction of the Act are: greater transparency and predictability of the business environment, more clear rules and less corruption. It should be noted however, that the effect of the Act is to be felt in the future. The Act was adopted in mid-2003 and a six-month term was envisaged for all government institutions to examine the acts issued by them and correct those which contravene the Act. A number of institutions have not taken yet the necessary steps for compliance with the provisions of the Act. For example, no overall examination has been made of the provisions at local level.

Provided that secondary legislation is not brought in line with the Act, any interested party may challenge unlawful secondary legislation before court. This could happen in the following cases: on introduction of license or registration regime for conducting economic activity by secondary legislative act, if the latter requires from the economic entity to submit a document from another administrative body to prove circumstances already verified by this body and recorded in the public register; if the secondary legislative act provides for regulation of economic activity; or if the secondary legislative act provides for burdens inhibiting competition.

The principle of silent consent also could cause problems. The officer is motivated, instead of taking decision within the prescribed term in fear that the principle of the silent consent might be applied, to try to stop transactions or actions without any ground. This may result in appeal and increase the number of suits on this occasion.

It is possible for entrepreneurs to challenge municipalities for absence of one-stop shop service. According to the National Association of Municipalities such one-stop shop services are available in 70 out of the 264 municipalities in the country. Financial resources for implementation of this requirement are still insufficient—it entails supply of computers, their connection in the network, as well as overcoming a number of other obstacles of financial, organizational and administrative nature.

The Act is not very well known yet by entrepreneurs mainly from the small and medium-sized businesses, and they should be more active in acquainting with it in order to exercise the rights provided therein.

1.2. Administrative reform and support to SMEs

The efficiency of the regulatory framework depends on the capacity of central and local administrations to apply predictably, transparently and objectively Bulgarian and EU legislation.

In the sociological study conducted representatives of small and medium-sized businesses state they have difficulties working with central and municipal administrations. The answers to the question on the role of central and local administrations in servicing businesses are telling. According to these data, over 70% of polled managers of SMEs completely agree with the statement that “work with central and local administrations is best done when you have an insider working there.” Over half of the respondents believe that additional money should be paid in order to avoid difficulties in the work with administration. The share of entrepreneurs (over 60%) who are of the opinion that laws change too often is high. This fact causes difficulties, inhibiting long-term planning and predictability.

Over 40% of the respondents are convinced that practical implementation of the legal framework is difficult. Most laws are harmonized with the EU acquis but problems arise in their application as a result of insufficiently informed law enforcement bodies. Optimization of the legal framework entails enhanced qualification and efficiency of the work of central and local administrations. In this regard in July 2003 the Civil Servant and Civil Service Act was amended. According to the amendments, civil servants shall be appointed based on a competition and shall undergo performance appraisal every year. It is expected that the competition procedure will ensure better selection of employees and performance appraisal will provide incentives to employees for high-quality work and career development. The Act provides for introduction of an anti-corruption mechanism with the requirement that by 31 March every year, civil servants declare any commercial, financial or other business interest which they or persons related to them have in regard to the functioning of the administration they work for.

A major step is the adoption of a Concept on improving the one-stop shop service and a Strategy for E-government aimed to facilitate individuals, businesses and government administration, to reduce the sources of corruption and to save time and money. The Concept and the Strategy envisage all operations to pass through the Internet. The Strategy provides for introduction of a minimal package of services provided through Internet by 2005 – 12 services for individuals and 8 for businesses.

A package of legislative measures for introduction of E-government (for details see chapter five) has been developed.

1.3. One-stop shop service

One of the best practices in the area of administrative procedures is the introduction of the "one-stop shop service". By Decision No. 878 of CM of 29.12.2002 a Concept on improving administrative service in the context of the one-stop shop service principle and a Base Model of One-Stop Shop Service were adopted. These documents formulate the underlying principles of administrative service, providing guidance on the work of administrative structures at the national and local level.

23 See the Concept on improving administrative service in the context of the one-stop shop service principle, Decision No. 878 of CM of 29 December 2002.
The objectives to be achieved as set out in the Concept are: unification of terms and concepts of improving administrative service; information integration; processes and services; business environment simplification; and building an E-government.

Over recent years the organizational principle of the “one-stop shop service” has been introduced to various degrees in some structures of the central and local administrations. This involves Information and Services Centers established with the support of the United States Agency for International Development (USAID) where the practice of providing municipal administrative services has been optimized. Information Entrepreneur Desks operate on the same principle. In the municipalities where such units exist, problems related to license and permissive regimes have been significantly reduced and SME representatives do not consider them significant.

The process of business one-stop shop service involves two steps: services at company registration as legal entity and services in conducting business operations – a process in which the company should be capable of developing its business in compliance with legal provisions. The first stage (registration) is more easily performed through the one-stop shop service. The practice shows that one-stop shop service for this procedure is very helpful to SMEs. Registration with courts, tax offices, and other inspection institutions saves time and funds to SMEs. This service is widely spread in the country.

The second level of the one-stop shop service, i.e. cooperation in conducting business operations, is provided in Bulgaria. However, it should be noted that in many cases the work of these units is very elementary. In order for these desks to be efficient, they should be integrated into municipal structures – analyzing the needs of businesses, entry and use of information technologies, training staff to work with clients in the area of operational support, etc.

Improvement of administrative services to businesses and individuals, including the one-stop shop service, entails extensive knowledge of scientific technical achievements. Development of new information and communication technologies (ICT) is one of the major factors behind increasing the opportunities for facilitating business and assisting interaction among individuals, the private sector and central and local authorities. For this reason many of the administrations strive to introduce, to the extent possible, modern achievements while constraints are due mainly to deficient financial resources and sometimes to insufficient capacity of the staff operating with the available equipment.

The essence of improvements already introduced at some administrations is digitalization of document circulation within the institution. This ensures maximum accessibility to every document both by the employees and the business. Such systems are developed and implemented in some municipalities in Bulgaria, where any computer connected to the local network provides most of the services. Thus the distance between administration and business increases and the possibilities for corruption are reduced as the whole process is visible and controllable and the lowest level of administration cannot be a decisive factor in solving specific problems.

Implementation of ICT in the administrations has two major sides - “front office” (interaction with business and individuals) and “back office” (internal administration system).

In the first case a priority is the construction and maintenance of website in Internet, which provides forms in .pdf format and/or explains the procedures in understandable way. In some cases the business and individuals have access to some basic online services. This is helpful and saves efforts but the problem is that it covers only 12% of the active population. Although visitors of the site get an idea what to do or how to fill in the forms, they have to go once again through the vicious chain of waiting in line in front of various offices.

The second case refers to development of an efficient internal system within the administration itself, providing access to the whole information, making communication among officers adequate and problem-free, eliminating paper flow and preserving only the incoming and outgoing documents. Currently such systems operate at local level in several settlements and their construction is a result of the support by the Foundation of Local Government Reform (FLGR) and USAID. The first systems were created in Stara Zagora, Gabrovo and Blagoevgrad. Yet another five municipalities started running such systems in the period 2001 – 2002 with the support of USD 130,000 – Kozloduy, Vidin, Svishtov, Ruse and Silistra. 110 municipalities in total have applied to FLGR for construction of new centers and 32 of these have won funding so far. Eight of the projects are for upgrading operating centers and 24 for construction of new ones.

The most developed example of successful integration of the two models of the “front” and “back” office has been presented by Yambol. Currently a new Internet portal is being completed there, through which local citizens will be able to file documents to the administration without necessarily going to the municipality. Interested persons would be able to check the movement of documents filed and the term for reply from every PC with access to the world wide web.

Conclusions and recommendations

Administrative barriers still pose difficulties to SME development. In recent years steps were taken toward introducing more clear rules, transparency and predictability, simplification of the
regimes and procedures, which has a positive impact on the business environment. Recommendations to the central and local administrations could be in the following areas:

- Review, analysis and proposals for optimization of the regulatory regimes at municipal level.
- Accelerated introduction of the one-stop shop service for business and individuals.
- More extensive use of the opportunities provided by the E-government.
- Continuous monitoring and assessment of the quality of services rendered by central and municipal administrations.
- Improving the exchange of information within the administrations using electronic exchange channels (Intranet).
- Enhancing the skills of administrative servants mainly in respect of operation with information technologies.
- Developing more accurate mechanisms for appraisal of individual employees at central and municipal administrations; and
- Exchanging information and expertise in solving different problems related to rendering of administrative services, including meetings with representatives from municipalities with successful economic and social development. Such meetings could be conducted with the cooperation of non-governmental organizations and they will provide possibility for acquaintance with good practices on improving business environment and service.

2. Protection of competition

About 60% of the polled representatives of SMEs within the specialized survey for the Report are of the opinion that competition protection in the country is not quite efficient and therefore they do not have favourable conditions for development of their business. Only 6% are satisfied with the measures taken in this area. In surveys conducted at municipal level representatives of small and medium-sized businesses complain from the lack of efficient protection against unfair market competition²⁶.

In this sense measures for protecting competition are of great importance for the regulation of business environment and eliminating market imperfections.

The measures taken over the last two years in respect of competition protection show that attempts at legislative and institutional changes have been made to harmonize Bulgarian legislation in this area with the European one and create conditions for fair market competition.

In this regard legislation on competition protection has undergone dynamic development. The Competition Protection Act adopted in 1998 was significantly amended (Official Gazette, issue 9 of 31.01.2003). As a whole the amendments revise seriously the legal regulation of competitive legal relations in the country. Out of the 60 articles in the Act only 10 have not been amended. Three new provisions were introduced of key importance for the protection of competition in the country.

The amendments prohibit agreements between enterprises, decisions of associations of enterprises, as well as concerted practice of two or more enterprises aimed at or resulting in market competition abuse on the relevant market and control over enterprises with dominant position on the market is tightened (with a share exceeding 35% of the relevant market). Prohibited are actions of enterprises with monopolistic or dominant position, as well as two or more enterprises with joint dominant position on the market which abuses competition and/or harms the interests of consumers, e.g. direct or indirect imposition of purchase or selling prices, restriction of production, etc. The amendments specify more precisely the threshold of so-called “agreements with insignificant impact” on competition. These agreements are permitted by the Act. Amendments were made in respect of concentration of economic activity (on takeover or merger of two or more enterprises or as a result of other actions specified in the Act whereby an enterprise acquires control over another enterprise). A single criterion for assessment of the significance of a concentration is introduced – aggregate turnover of the enterprises affected by the concentration. On total turnover of the participants in the concentration exceeding BGN 15 million for the previous year an obligation arises for them to notify in advance the Commission for Protection of Competition (CPC). Where the Commission finds that a concentration has been effected in violation of the Act, it imposes property sanction and other measures in order to restore the situation that existed before the concentration on the relevant market.

The powers of the Commission are also expanded in terms of making sector analyses of the markets which are most seriously threatened with competition abuse. It is envisaged for the Commission to control compliance with the conditions imposed on the participants in the concentration at authorization of the concentration by the Commission.

The election of new composition and management of the Commission for Protection of Competition was significantly delayed, which affected adversely the free market in the country. As late as the beginning of October 2003 the National Assembly elected new members of the Commission for Protection of Competition but the mandate of the former expired at the end of 2002. The Commission comprises 7 members (by virtue of the amendments of the Act - Official Gazette, issue 9 of 2003), while before that it included 11 members. The problems with competition protection also stem from the circumstance that despite legal regulation of the powers of the Commission, its behaviour is not active enough. Expectations are that it should start working as an efficient national anti-trust regulator thus enhancing its administrative capacity, increasing the element of autonomy and sovereignty of the awarded decisions in respect of the quality of administrative acts.

Amendments to the Act lead to changes in other legislative acts related to the activity of CPC. Fast implementation of this process involves completion of the legal framework on competition in Bulgaria. It is necessary to continue explaining the amendments made. This is particularly important for SMEs, which generally suffer from absence of information on the process of legislation harmonization. SMEs should be better acquainted with the rules of fair competition.

3. Regulation of bankruptcy proceedings

Bankruptcy proceedings in the Commerce Act (CA) are in compliance with the key aspects in European legislation in this field. Currently bankruptcy is regulated in Part Four of the Commerce Act, adopted in 1994. For the cases unsettled by the CA the general provisions of the Civil Procedure Code apply (CPC). In addition to these acts bankruptcy is regulated by other laws and by-laws as well – Tax Procedure Code, Accountancy Act, etc. Special rules exist for banks’ bankruptcy proceedings (Bank Bankruptcy Act) and insurance companies (Insurance Act).

Over the past two years proposals were made for amending the legislation in this area. Amendments and supplements in chapter four of the Commerce Act are published in the Official Gazette in 2003. Amendments aim at introducing quick and efficient procedures in the interest of debtors and creditors and employees in the enterprises. Generally the essence of these changes is to shorten drastically the length of the procedures and better protection of the interests of bona fide creditors.

Amendments involve changes in company law, extending the powers of minority shareholders and changing some rules for holding general meeting and the quorum and majority required for taking various decisions. The amended bankruptcy subject matter provides for improved regulation of the rehabilitation of the debtor’s enterprise and cashing of the debtor’s property. A two-instance hearing of bankruptcy cases and stricter requirements to trustees in bankruptcy are introduced. A new section is added regulating the procedures for merger, takeover, spin-off, splitting, and transformation of commercial companies.

Work on intensification of bankruptcy procedures, as an element of the business environment, will continue in two directions: improving the general legal framework (substantive law, procedural and legal, tax, accounting, social, labour and penalty legal aspects) and the institutional framework.

4. Settlement of business disputes

Settlement of business disputes is a major problem faced by small and medium-sized enterprises in Bulgaria. SMEs have less sizeable capacity compared to large enterprises. SMEs do not have specialized legal units and they often use expensive legal services provided by external lawyers and advisers. Proceedings in the country and the procedures for settling business disputes in particular need improvement in terms of efficiency, objectivity and expediency.

A major guarantee for performance of contractual obligations is the possibility for referring disputes to the competent courts. There is a possibility, if this is explicitly provided in the relevant commercial contract, for disputes to be referred to and settled by a specific arbitration court. In the Republic of Bulgaria there is an Arbitration Court to the BCCI. The awards of the Arbitration Court are mandatory for all courts in the country.

An efficiently operating judicial system ensures compliance with contractual rights and obligations and secure business environment in the country.

At the same time however, many of SME representatives show distrust in the efficiency and objectivity of judicial bodies. To the question “if a business dispute is to be settled in court, what is the probability that it will be justly awarded” only 13% of respondents give positive answers. 56% of respondents have a diametrically opposite view. According to business representatives, settlement of business disputes is slow, formal and expensive. A very serious problem is the delay of procedures, which erodes the credibility of the judicial system.

Data quoted in the Global Competitiveness Report 2003-2004 of the Global Economic Forum show the following picture:

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of procedures for settling a dispute</th>
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<tbody>
<tr>
<td>France</td>
<td>10</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>16</td>
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<tr>
<td>Hungary</td>
<td>17</td>
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<tr>
<td>Poland</td>
<td>18</td>
</tr>
<tr>
<td>Slovenia</td>
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<tr>
<td>Bulgaria</td>
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<td>Romania</td>
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</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of days necessary to settle a dispute:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>39</td>
</tr>
<tr>
<td>Romania</td>
<td>225</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>270</td>
</tr>
<tr>
<td>Hungary</td>
<td>365</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>410</td>
</tr>
<tr>
<td>Poland</td>
<td>1000</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1003</td>
</tr>
</tbody>
</table>

Source: Global Competitiveness Report 2003-2004

A World Bank study states that proceedings in Bulgaria are relatively cheaper than in other South Eastern European countries. Total costs on a suit for settlement of a business dispute account for 13% of the claimed value, according to researchers’ estimates.
According to the quoted study of the World Bank, small companies refer most rarely to the judicial system for settling business disputes. SME managers consider that proceedings are slow and inefficient in contrast to larger companies, which are more satisfied with the length of proceedings on business disputes. The same applies to newly established companies which state that they bring less suits and report lower share of court trials on due payments compared to the companies which have been on the market for a longer time.

It is for these reasons that SMEs strive to avoid possible business disputes. The ways for this are for example not to enter into transactions with unknown partners, refusal from long-term relations with partners which default on their contractual obligations. These actions restrict the possibilities for choosing the best offer and improving the conditions of the transactions, inhibit market entry and exit.

Other means used by SMEs to avoid possible legal disputes is refusal to extend credits, requirement for advance payment on delivery of a good or service, etc.

In many developed countries mediation of business associations is an efficient mechanism for settling business disputes. Unfortunately in Bulgaria the role of associations in this aspect is insignificant, particularly in respect of SMEs.

According to SME representatives, the judicial system in Bulgaria is characterized by a significant procedural formalism and complexity which inhibits business and enables corruption. For example, when bringing a suit the statement of claim shall be in written form. Most companies employ lawyers to file the claim to court and appear in court on suits for default on commercial contracts. In some cases only written evidence is admissible by court (e.g. no witness testimony is permitted for establishing of contracts valued at over BGN 1,000, unless these have been entered into between spouses or relatives to a specific degree – Art.133, letter “c” of CPC). The existing practice is for concluding arguments of the parties to be presented in a written form, although the CPC does not stipulate so. This practice contradicts the oral principle, a basic principle of the civil proceedings, as well as the right of defense because the parties cannot challenge the statements of the other party contained in the arguments. The complexity of court procedures is the reason why SMEs seek legal services before bringing the suit.

A serious problem is the spread of corruption practices related to settlement of business disputes and generally in the relationships with judicial authorities. Studies show that SMEs and newly established companies are inclined and actually pay bribes to judicial officers more often than old and large companies. SMEs incur higher costs for court procedures and by giving bribes they run into a vicious circle and the problem worsens.

There are legal provisions for out-of-court settlement of disputes but this practice is not widespread.

In the EC regular report on Bulgaria’s progress is stated that the country should make further efforts to strengthen its judicial institutions.

For this reason measures were taken for comprehensive reform of the judicial system. In 2003 a political agreement was reached on the main areas of the reform and a consent on amending the Constitution. The objectives of the reform include: improving the mechanisms of coordination and interaction between the judicial system and the executive; structural and functional changes in the judicial system; improving the work of the judicial administration; improving the material and technical base of the judicial system; changes in process legislation, etc.

At the end of September 2003 the National Assembly adopted finally on third reading changes in the main law of the country, the Constitution. Major changes concern mandates, immunity and irremovability of magistrates. In March 2004 amendments to the Judicial Authority Act were adopted in compliance with the amendments to the Constitution.

The political agreement reached on reforming the judicial system, the amendments to the Constitution and the Judicial Authority Act have a positive effect on the business environment and could lead to enhanced credibility of the judicial system in general and improve the image of the country before the business communities.

Recommendations:

Recommendations to the judicial system in regard to settlement of business disputes are as follows:

- Overall improvement of the condition of the judicial system through identification of the difficulties in the operation of courts and due notification of the competent institutions.
- Building alternative institutions to ensure compliance with contractual obligations of business partners. This involves opening of credit offices, use of non-governmental organizations and mediators (accountants, auditors); setting up institutions for data exchange.
- Improving the existing and creating alternative forms of dispute settlement, mainly through more active use of business arbitration.
- Creation of judicial statistics. This is a major step for improving the functioning of the judicial administration and management of proceedings. In this regard the judicial system needs significant modernization.
- Removing from the jurisdiction of courts some protective proceedings on commercial cases (e.g. registration of commercial companies) and transfer to appropriate administration agencies with a view to enhancing efficiency and releasing funds.
5. SME access to public procurement

Only 9% of polled representatives of small and medium-sized businesses are convinced that the procedures for awarding public procurement are transparent and unbiased. Over 60% express the opposite opinion while the rest have not stated their opinion on the issue. Only 27% of the polled SME representatives state that over the last three years they have participated in public procurement procedures. Of note is the significant share of SMEs which have participated in such procedures and have won a public procurement: 66.9%, i.e. SMEs have successfully met the requirements for participation in such procedures. Major obstacles to participation of SMEs in such procedures are as follows: (arranged in descending order according to significance):

- doubt about the objectivity of procedures – it is assumed that procedures are predetermined;
- great number of documents required;
- high values of guarantees for participation and performance;
- unfamiliarity with information of potential participants due to inadequate disclosure of public procurement procedures;
- imprecise conditions announced by the contracting authority;
- lack of qualified staff at companies to prepare the documents for participation; and
- short term for preparation, etc.

There are representatives (4.4%) who state that they do not experience problems in the preparation and participation in such procedures.30

Over recent years legal regulation of public procurement in Bulgaria has improved considerably. The effective Public Procurement Act (PPA), adopted in 1999, was significantly amended in 2002 in order to harmonize Bulgarian legislation in the area of public procurement with EU directives, create more favourable conditions for boosting competition and enhance the efficiency of performance of awarded public procurement.

The Public Procurement Act provides conditions for encouraging participation of small and medium-sized enterprises – in assessing the proposals, other conditions being equal, priority is given to candidates which are SMEs themselves or which have attracted as subcontractors small and medium-sized enterprises registered under a separate law.31

Another legislative act regulating public procurement is the Regulation on Public Procurement below the Thresholds Determined in Art. 7, para. 1 of PPA (“small public procurement”).32

The Regulation provides a possibility for the contracting authority not to conduct procedures and sign a written contract for orders amounting to BGN 10,000 and the transaction is verified by original payment documents. According to the Regulation, the decision of the contracting authority on opening a procedure for awarding small public procurement includes conditions that ensure and encourage participation of small and medium-sized enterprises.

As a whole the Regulation is more flexible than the PPA and introduces simplified procedures. At the same time the procedures under the Regulation entail significant efforts and costs for preparation for participation. Although the rules are simple, better administrative coordination and planning of activities are needed and this is more difficult to be done by SMEs than by big enterprises.

According to expert opinion, the provision on encouraging participation of SMEs in public procurement is a “dead provision”, i.e. contracting authorities do not apply it.33

Work on improving and harmonization of the legal framework for public procurement with the EU law has continued for the past two years. As early as June 2002 it was announced that adoption of an entirely new Public Procurement Act was pending. This step was provoked by several reasons, the major one being the need for the Bulgarian legislation to reflect two new EU directives in the public procurement area – regarding appeal of procedures and simplifying the conditions for public procurement for the enterprises from the utility sector.

In September 2003 on first reading was adopted a new Public Procurement Act and in March 2004 – on second reading.34 The new Act shall come into force as of 01.10.2004. It complies with EU directives on public procurement for services, supplies, construction and the sectors of water supply, energy, transport and postal services.

In compliance with the directives the types and subjects of public procurement contracts and the contracting authorities

30 Data is based on the specialized sociological study for the preparation of the report (see the introduction/31 See Art 41, para. 4 of PPA.
33 Assessment of the efficiency of the effective legal framework and available practices on PPA application, Presentation of BIA, Discussion Round Table, Sofia, 22 December 2003.
34 The Public Procurement Act is published in OG, issue 28/06.04.2004.
are specified; the thresholds above which a procedure for awarding public procurement shall be conducted; the method of determining the value of public procurement; the types of procedures; the rules for participation in the procedures and the rules for awarding public procurement in the sectors of water supply, energy, transport and postal services; appeal and control; setting up a Public Procurement Agency and keeping a Public Procurement Register.

With the new Act higher thresholds are adopted for the various types of public procurement without reaching the EU thresholds. These are as follows:

<table>
<thead>
<tr>
<th>Type of public procurement</th>
<th>New threshold</th>
<th>Previous threshold</th>
<th>Threshold in EU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BGN</td>
<td>BGN</td>
<td>EUR</td>
</tr>
<tr>
<td>For services</td>
<td>90 000</td>
<td>30 000</td>
<td>130 000</td>
</tr>
<tr>
<td>For supplies</td>
<td>150 000</td>
<td>50 000</td>
<td>200 000</td>
</tr>
<tr>
<td>For construction</td>
<td>1 800 000</td>
<td>600 000</td>
<td>5 000 000</td>
</tr>
</tbody>
</table>

Increasing the thresholds will lead to restricting inappropriate procedures and more reasonable spending of funds by contracting authorities and candidates, as well as constraining corruption.

The minister of economy implements the government policy in the area of public procurement.

The Act provides for the setting up of a Public Procurement Agency to the minister of economy, which will support him in implementing the government policy in the area of public procurement. The Agency will be managed and represented by an executive director to be appointed by the minister of economy. The primary powers of the executive director are: issue of methodological guidance on the implementation of the Act; filing claims on declaring public procurement contracts null and void on breach of law; approaching the competent authorities for exercising control on implementation of the law; keeping the Public Procurement Register; developing a Public Procurement Classifier; maintenance of lists of contracting authorities, etc.

The procedure for appealing the procedures under PPA are simplified – any candidate may file a claim for rescinding the decisions of the contracting authority with the regional court (not with the Supreme Administrative Court, as is provided for by the currently effective Act).

Another major aspect in the Act is the possibility provided for appealing the procedures before arbitration in the event the candidate has entered into an arbitration agreement with the contracting authority before submitting the offer. The competent arbitration under PPA is only the Arbitration Court to the Public Procurement Agency which is to be established. This change will help speed up the appeal procedures.  

§5 of the Transitional and Concluding Provisions of the Public Procurement Act provides for preferences for small and medium-sized enterprises registered under the SME Act – in assessing the offers of a candidate which is a SME, the price offered by it shall be deemed the lowest provided that it exceeds the lowest price offered by another candidate by not more than 15% - for public procurement awarded in 2004; 10% - for those awarded in 2005 and 5% for those awarded in 2006. The preference shall be applied by 1 January 2007.  

The Act provides for reduction of the admissible maximum amount of the guarantee for public procurement contract performance from 10% of the contract value to 5%. High amounts of guarantees for participation in the procedures and contract performance are one of the obstacles to participation in the public procurement procedures stated by managers of SMEs.

The Act envisages a possibility for the public procurement procedures to be conducted within the commodity exchanges but the range of contracts to be concluded there will be restricted. A special list will be applied including only traditionally traded commodities which will be the subject of delivery under public procurement contracts. The list will be proposed by the State Commission for Commodity Exchanges and Markets subject to approval by the Council of Ministers.

The adoption of the Act is a major step toward our EU membership as it is of key significance for utilization of European funds. Full harmonization of the legislation in this area with the European one and establishing real practice on its implementation will prepare the country for efficient application of the complex rules and procedures prescribed by the EU law.

Conclusions and recommendations:

Practice shows that SME access to public procurement should be facilitated. This involves development and implementation of electronic information system, organizing seminars and publishing the set of documents required for participation in the procedures under PPA specifically for SMEs.

Ways should be sought for introducing electronic public procurement procedures. One of the steps is popularizing successful pilot projects and preparation of the SME sector for participation in such procedures through information dissemination, seminars and meetings.

Not only legislative changes are important for SME successful participation in public procurement procedures but mainly the policy of supporting SME in this area through provision of information, simplifying the conditions for participation, and providing assistance in completing the documents for participation.
6. Corruption environment

The issue of corruption in making business operations is of key significance for SMEs. According to the survey conducted by the Center for Economic Development in the process of preparing the report, 84% of managers are convinced that most businessmen would pay extra money to avoid difficulties in the work with public administration.

The corruption level is a key indicator of the extent to which the government ensures working, transparent, clear rules and frameworks for business development. Corruption affects business relations to a great extent, causes increase in costs and delays transactions. These consequences are particularly hard for SMEs.

The regular reports of Coalition 2000 show a slight increase in the index of corruption spread in February 2004. The coalition presented its specialized study on corruption conducted among business representatives. Compared with the previous study (conducted in December 2003) the index of corruption spread has increased from 1.2 to 1.3. Quite often companies offer unofficial amounts to avoid payment of fines and obligations for payment of customs duties, on obtaining licenses and permits, on settlement of business disputes at courts. According to the study, business participation in corruption practices, which related to award of public procurement in the beginning of 2004, shows a certain increase. Most payments made unofficially by the business for the purpose of concluding public procurement contracts moves within the range of 2 to 10% of the value of the contract amount. The latest survey revealed an increase in the amount of unofficial amounts to 11-20% of the value of the order.

Use of corruption practices by SMEs is provoked mainly by their desire to avoid imposition of fines for possible breaches and in some cases this is done to save time but this fact affects adversely the value of transactions.  

The reports of the organization Transparency International give an idea of corruption spread globally. In the beginning of October 2003 the new report on the corruption levels in 134 countries was announced, and Bulgaria is placed on 54th place. In practice there is no significant change in the corruption level – it is 3.9 against 4 in the further behind further behind previous study (according to this study 0 is the highest corruption level and 10 is the lowest corruption level). Bulgaria is in a better position with lower corruption level compared to some accession countries that joined EU in 2004 – Latvia, Poland, Slovakia. The countries with better positions than Bulgaria are Estonia, Hungary and Lithuania. Romania, Croatia, Macedonia, Serbia and Monte Negro, are further behind.  

Lower corruption affects positively overall business climate in the country, creates security and confidence in business, which is of primary importance for small and medium-sized enterprises. The latter are particularly vulnerable to corruption pressure due to the less sizeable available funds. Simplification and reduction of bureaucratic procedures, introduction of clear rules for corruption fighting, simple and fast procedures for filing complaints and signals against corrupted employees would reduce corruption practices.

In this regard a positive effect is expected from the Civil Convention on Corruption, published in the Official Gazette, issue 102, signed by the member states of the Council of Europe and the other members of the European Community, ratified by Bulgaria and effective as of 1 November 2003. The Convention contains general provisions pertaining to the definition of corruption, taking efficient steps in every country by those who have suffered damages as a result of acts of corruption to safeguard their interests. The Convention will motivate victims of corruption practices to assert their rights.

Overall work in the area of corruption fighting is reflected in the report from September 2003 of the governmental Commission for Coordination of the Activities to Combat Corruption under the Programme for implementation of the National Anti-corruption Strategy. Major efforts of the Commission are directed toward prevention and training individuals and businesses. For this reason training in ethical rules for civil servants is planned, training programmes on corruption fighting, etc. The purpose is to educate citizens in intolerance to corruption and civil servants not to take tributes. The report is accompanied by a Programme for implementation of the National Strategy for Corruption Fighting covering the period 2004-2005.  

Solving the problem with corruption depends to a great extent on enhanced intolerance by individuals and the business.

Overall, it should be noted that Bulgarian legislation has been brought largely into compliance with the requirements of EU in this area but difficulties stem from the lack of efficient mechanisms for its practical implementation.

Over recent years the administrative and legal environment for the development of small and medium-sized businesses has improved. This refers to the measures taken in the area of regulatory regimes, public procurement, competition promotion, intensification of bankruptcy proceedings. Positive changes reflect improvement and harmonization of the legislation with that of EU to ensure greater transparency and more clear rules for the small and medium-sized businesses as well. Measures are being taken to increase the capacity and competence of central and local administrations. As a whole, however, efforts focused on improving and developing the above-mentioned areas need to continue in the future.

38 www.transparency-bg.org
39 For details www.acc.govtment.bg
Chapter four
ACCESS OF SMEs TO FINANCING

SME financing is very important with a view to the sustainability of the SME sector and of the economy as a whole, as well as against the fact that the access to financing is an important characteristic of the SME policy and of the environment for development of SMEs.

The SME sector’s sustainability is largely a function of the access of SMEs to financing. Unlike the existing state-owned and privatized enterprises, start-up SMEs must, by default, handle the financing problem first – both to raise the necessary equity capital and to expand their activity and acquire assets at a value exceeding the amount of their equity capital.

1. Bank Financing of SMEs

Table 11. Banking System Indicators

<table>
<thead>
<tr>
<th></th>
<th>December 2001</th>
<th>December 2002</th>
<th>December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>12 220 529</td>
<td>14 557 124</td>
<td>17 323 643</td>
</tr>
<tr>
<td>Total deposits</td>
<td>9 555 693</td>
<td>11 282 160</td>
<td>13 593 516</td>
</tr>
<tr>
<td>Current profit</td>
<td>319 375</td>
<td>266 625</td>
<td>379 817</td>
</tr>
<tr>
<td>ROE* (%)</td>
<td>19.3</td>
<td>13.8</td>
<td>16.7</td>
</tr>
<tr>
<td>ROA** (%)</td>
<td>2.6</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Total capital adequacy*** (%)</td>
<td>31.32</td>
<td>25.22</td>
<td>22.03</td>
</tr>
</tbody>
</table>

*  Return on equity
**  Return on assets
***  Branches of foreign banks excluded

Source: BNB, Commercial Banks in Bulgaria, quarterly bulletins and own calculations

In the last two years the interest of banks to SME financing is in line with the general upsurge observed in the banking sector. A trend of permanent growth in deposits, assets and operating profit (with rather unchanged return on equity, Table 11) has been observed in the Bulgarian banking system after the year 2000. The table below indicates the good development of the banking system in recent years, with the reservation that the 2001 indicators of profit, return on equity and capital adequacy take into account the single release of provisions by Bulbank AD, whereas 2003 data are presented according to the accounting forms under the International Accounting Standards applied since the beginning of the year.

Table 12. Receivables from the non-government sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receivables</td>
<td>3 360 197</td>
<td>4 440 577</td>
<td>6 324 045</td>
<td>9 413 215</td>
</tr>
<tr>
<td>Non-financial state-owned enterprises, thousand BGN</td>
<td>183 930</td>
<td>199 925</td>
<td>263 111</td>
<td>269 176</td>
</tr>
<tr>
<td>including loans, %</td>
<td>87.31</td>
<td>84.91</td>
<td>82.07</td>
<td>87.02</td>
</tr>
<tr>
<td>Non-financial private enterprises, thousand BGN</td>
<td>2 556 291</td>
<td>3 319 398</td>
<td>4 718 913</td>
<td>6 691 172</td>
</tr>
<tr>
<td>including loans, %</td>
<td>98.28</td>
<td>99.14</td>
<td>99.62</td>
<td>99.28</td>
</tr>
<tr>
<td>Households, thousand BGN</td>
<td>590 909</td>
<td>861 765</td>
<td>1 241 560</td>
<td>2 201 298</td>
</tr>
<tr>
<td>including loans, %</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Non-bank financial institutions, thousand BGN</td>
<td>29 067</td>
<td>59 489</td>
<td>100 461</td>
<td>251 569</td>
</tr>
<tr>
<td>including loans, %</td>
<td>84.03</td>
<td>87.54</td>
<td>91.83</td>
<td>89.79</td>
</tr>
</tbody>
</table>

Source: BNB, analytical reports of commercial banks and own calculations

The primary importance of lending as a source of income for commercial banks is a key factor determining banks’ interest in lending to SMEs, insofar as this lending market segment is increasingly perceived as a highly promising market niche. Along with the general growth in lending, all banks have focused specifically on retail banking and the small and medium-sized business. In the last two years the growth rate of loans to the small and medium-sized business and of consumer loans registered increase against loans to the non-SME private sector. The share of consumer loans (particularly receivables on loans to households) in total receivables (mainly loans) from the non-government sector is presented in Table 12. The table also shows receivables from the private sector (basically receivables on loans again).

Some commercial banks also provide data about the lending to the sector. A commercial banks survey conducted by the Agency for Small and Medium-sized Enterprises in 2003 produced the following data:
The data in Table 13 cover the activity of eight of over 30 banks and branches operating in the country. Yet official statistics does not provide data about loans to SMEs at banking system level. This is explainable in the first place by the problem with defining SMEs and by the different criteria applied by different banks. Therefore, in quantitative terms banks’ interest in SME financing can only be indirectly defined.

BNB’s data about the banking system’s assets (Table 12) can be compared to NSI’s 2001 and 2002 balance-sheet data for enterprises (by classes of enterprises) (Table 14). NSI’s data allow presentation of banking support to the SME sector according to the different size classes of enterprises in terms of employment.

NSI data also show that the share of total private sector (sectors C to K inclusive) long-term liabilities on bank loans amounts to 25.6% of sectors’ total long-term liabilities as at end of 2002 (31% as at end of 2001 accordingly). The corresponding share of short-term liabilities on bank loans amounts to 10.2% of sectors’ total short-term liabilities as at end of 2002 (10% as at end of 2001 accordingly). This implies that notwithstanding the lending growth in the last two years, the bank loan mechanism is insufficient to satisfy the financial needs of SMEs. The SME surveys presented below confirm unsatisfied additional financing needs hypothesis.

The data in Table 13 are indicative of banks’ interest in SME financing, but it cannot be directly compared to Table 12 data for the following reasons. First, NSI’s data are only about private enterprises that have delivered balance-sheets, whereas total banking system data also include private enterprises that have not delivered balance-sheets to NSI. What is more, NSI’s data only include enterprises within the survey population (i.e. enterprises in sectors C to K inclusive), whereas total banking system data refer to all liabilities on loans of non-financial private enterprises in the non-government sector. Third, there might be differences in accounting the liabilities on bank loans and the receivables on loans of non-financial private enterprises. Fourth, the fact that the enterprises that have delivered balance-sheets to NSI constitute about one-third of the enterprises in the survey population (i.e. NSI’s target population) should be added to the above limitations. However, it might be assumed (and empirically established in further surveys provided that data are available) that it is the enterprises, which deliver balance-sheets to NSI, that generate a substantial portion of financing, but it cannot be directly compared to Table 12 data for the following reasons. First, NSI’s data are only about private enterprises that have delivered balance-sheets, whereas total banking system data also include private enterprises that have not delivered balance-sheets to NSI. What is more, NSI’s data only include enterprises within the survey population (i.e. enterprises in sectors C to K inclusive), whereas total banking system data refer to all liabilities on loans of non-financial private enterprises in the non-government sector. Third, there might be differences in accounting the liabilities on bank loans and the receivables on loans of non-financial private enterprises. Fourth, the fact that the enterprises that have delivered balance-sheets to NSI constitute about one-third of the enterprises in the survey population (i.e. NSI’s target population) should be added to the above limitations. However, it might be assumed (and empirically established in further surveys provided that data are available) that it is the enterprises, which deliver balance-sheets to NSI, that generate a substantial portion of the gross value added in the SME sector and in the private sector in general.

However, a comparison of the loans to SMEs dynamics on one part to bank receivables on loans to the non-government sector on the other part (as presented in Tables 14 and 12 accordingly) definitely proves the growing interest of banks in SME financing:

Table 13. Commercial banks’ data about loans to SMEs

<table>
<thead>
<tr>
<th>Bank</th>
<th>Year</th>
<th>Loans number</th>
<th>Total amount (thousand BGN)</th>
<th>Including Investment loans (thousand BGN)</th>
<th>Including operating (thousand BGN)</th>
<th>% of total loan portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouragement Bank</td>
<td>2001</td>
<td>100</td>
<td>19 628</td>
<td>x</td>
<td>x</td>
<td>99 76</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>126</td>
<td>30 500</td>
<td>29 600</td>
<td>900</td>
<td>99.73</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>117</td>
<td>47 600</td>
<td>46 000</td>
<td>1 600</td>
<td>99.73</td>
</tr>
<tr>
<td>United Bulgarian Bank (UBB)</td>
<td>2001</td>
<td>x</td>
<td>12 987</td>
<td>x</td>
<td>x</td>
<td>99 76</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>3 717</td>
<td>282 310</td>
<td>125 332</td>
<td>156 978</td>
<td>40.54</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>4 537</td>
<td>310 205</td>
<td>160 302</td>
<td>149 903</td>
<td>32.90</td>
</tr>
<tr>
<td>First Investment Bank</td>
<td>2001</td>
<td>192</td>
<td>20 626</td>
<td>x</td>
<td>x</td>
<td>99 76</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>522</td>
<td>51 147</td>
<td>11 319</td>
<td>39 828</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>649</td>
<td>63 701</td>
<td>15 311</td>
<td>48 390</td>
<td>x</td>
</tr>
<tr>
<td>ProCredit Bank</td>
<td>2001</td>
<td>1 001</td>
<td>11 050</td>
<td>x</td>
<td>x</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>5 879</td>
<td>74 600</td>
<td>34 500</td>
<td>40 100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>5 560</td>
<td>66 400</td>
<td>30 500</td>
<td>35 900</td>
<td>100</td>
</tr>
<tr>
<td>Roseximbank</td>
<td>2001</td>
<td>161</td>
<td>11 713</td>
<td>x</td>
<td>x</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>111</td>
<td>12 056</td>
<td>4 809</td>
<td>7 246</td>
<td>9.68</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>129</td>
<td>14 727</td>
<td>6 397</td>
<td>8 330</td>
<td>10.40</td>
</tr>
<tr>
<td>Hebrok Bank</td>
<td>2001</td>
<td>17</td>
<td>701</td>
<td>x</td>
<td>x</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>1 400</td>
<td>32 900</td>
<td>8 700</td>
<td>16 600</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>1 700</td>
<td>51 600</td>
<td>16 600</td>
<td>35 000</td>
<td>x</td>
</tr>
<tr>
<td>Unionbank</td>
<td>2001</td>
<td>518</td>
<td>18 484</td>
<td>x</td>
<td>x</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>652</td>
<td>24 800</td>
<td>18 700</td>
<td>27 800</td>
<td>30.41</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>814</td>
<td>38 700</td>
<td>6 100</td>
<td>11 200</td>
<td>34.60</td>
</tr>
<tr>
<td>Municipal Bank</td>
<td>2001</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>239</td>
<td>30 770</td>
<td>14 985</td>
<td>12 192</td>
<td>37.20</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>265</td>
<td>30 273</td>
<td>16 685</td>
<td>18 081</td>
<td>31.42</td>
</tr>
</tbody>
</table>

Table 14. Liabilities on bank loans, private sector, thousand BGN

<table>
<thead>
<tr>
<th>Loan type</th>
<th>December 2001</th>
<th>December 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term liabilities, 1-9 employees</td>
<td>383 080</td>
<td>-</td>
</tr>
<tr>
<td>Long-term liabilities, 10-49 employees</td>
<td>312 747</td>
<td>434 935</td>
</tr>
<tr>
<td>Long-term liabilities, 50-99 employees</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Long-term liabilities, 100-249 employees</td>
<td>311 879</td>
<td>355 498</td>
</tr>
<tr>
<td>Long-term liabilities, 250+ employees</td>
<td>-</td>
<td>886 936</td>
</tr>
<tr>
<td>Total long-term liabilities, private sector</td>
<td>2 000 179</td>
<td>2 139 706</td>
</tr>
<tr>
<td>Short-term liabilities, 1-9 employees</td>
<td>262 286</td>
<td>256 194</td>
</tr>
<tr>
<td>Short-term liabilities, 10-49 employees</td>
<td>346 255</td>
<td>-</td>
</tr>
<tr>
<td>Short-term liabilities, 50-99 employees</td>
<td>-</td>
<td>217 817</td>
</tr>
<tr>
<td>Short-term liabilities, 100-249 employees</td>
<td>339 514</td>
<td>470 304</td>
</tr>
<tr>
<td>Short-term liabilities, 250+ employees</td>
<td>864 504</td>
<td>-</td>
</tr>
<tr>
<td>Total short-term liabilities, private sector</td>
<td>1 976 553</td>
<td>2 320 601</td>
</tr>
</tbody>
</table>

Note: Above banks have provided information based on written requests by the Agency for Small and Medium-sized Enterprises to the executive directors of commercial banks in the country. Data provided are as at 30 June 2003.

Note: "-" means that data are not available. Source: NSI
BNB’s and NSI’s data taken together show a growth of loans to the private sector after the year 2000 practically in all size classes (in terms of employment).

BNB’s data reveal that at banking system level receivables on loans to non-financial private enterprises account for 70% of receivables from the non-government sector.

The data from the 2001 and 2002 balance-sheets delivered to NSI reveal that enterprises with up to 250 employees account respectively for 56% and 41% (possibly much higher than 41%, given that in Table 14 data for some classes are not available) of short-term liabilities on taken bank loans.

The data from the 2001 and 2002 balance-sheets delivered to NSI reveal that enterprises with up to 250 employees account respectively for over 50% (possibly much higher than 50%, given that in Table 14 data for some classes are not available) and over 58% of long-term liabilities on taken bank loans.

The above conclusions provoke the following question: what generates the growing interest of banks in lending to SMEs in the reviewed period. The basic reasons include:

• Looking for new opportunities in the saturated retail banking and corporate banking markets;
• Decreased yield of interest-bearing foreign assets;
• Growing interest of SMEs (for which the alternative sources of financing are rather inaccessible – an issue discussed below);
• Improved quality of presented investment projects;
• Some regulatory barriers to lending from the first years of the currency board arrangement have been eliminated; and
• Improved managerial skills, lending experience, import of know-how and software innovations (all possibly due to the privatization and the foreign participation in the Bulgarian banking sector), which result in more efficient risk management and pricing of lending.

The above reasons are also factors for further interest and lending expansion in the near future. Therefore one can project that there is yet potential to develop lending in general, hence to increase the volume of loans to SMEs (even with a conservative scenario of preserving their relative share in total loans to the private sector).

The data and analysis of the lending to the SME sector in Tables 12 and 14 are based on aggregate indicators at banking system level. Official data (i.e. from BNB or NSI) at commercial banks level, particularly data about loans to SMEs, are not available, yet some BNB data confirm the growing interest of commercial banks in the sector. The information about individual banks in Table 15 presents a possible current picture of the interest to the SME sector based on banks operating in Bulgaria (branches of foreign banks included). It should be pointed out that the data in Table 15 only refer to certain types of loans, whereas the small and medium-sized business could possibly make use of other types of loans as well (e.g. consumer loans – by micro enterprises). Nevertheless, Table 15 presents a maximum objective quantitative picture of provided loans, insofar as each bank applies its own definition of SMEs.

The picture presented in Table 15 can be completed with data from the different lending programmes and products the banks have announced to support SMEs. Table 16 gives description of these programmes and products.

Table 15. Lending to the non-financial private sector (selected banks with pronounced interest to the SME sector)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Loans according to the bank’s balance-sheet (31 December 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total commercial loans</td>
</tr>
<tr>
<td></td>
<td>Thousand BGN</td>
</tr>
<tr>
<td>Bulgarian Post Bank</td>
<td>387365</td>
</tr>
<tr>
<td>Biochim</td>
<td>559256</td>
</tr>
<tr>
<td>BNP-Paribas (Bulgaria)</td>
<td>172400</td>
</tr>
<tr>
<td>Bulgarian-American Credit Bank</td>
<td>172531</td>
</tr>
<tr>
<td>Bulbank</td>
<td>808300</td>
</tr>
<tr>
<td>Allianz Bulgaria</td>
<td>90329</td>
</tr>
<tr>
<td>Central Cooperative Bank</td>
<td>129475</td>
</tr>
<tr>
<td>Corporate Commercial Bank</td>
<td>113688</td>
</tr>
<tr>
<td>DSK Bank</td>
<td>251546</td>
</tr>
<tr>
<td>ElBank</td>
<td>138478</td>
</tr>
</tbody>
</table>

REPORT BY THE AGENCY FOR SMALL AND MEDIUM-SIZED ENTERPRISES

57
### Table 16. Announced lending programmes and products targeting SMEs

<table>
<thead>
<tr>
<th>Bank</th>
<th>Programmes and products for SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgarian Post Bank</td>
<td>- Post Bank offers a small business financing programme under the trade name Partners with a couple of subprogrammes. The Practice subprogramme provides small enterprises with circulating capital of BGN 15 000 to BGN 250 000 and term of loan up to 24 months. The rate of interest on Practice loans is 11.50% to 12.50% per year. Loans are revolving for a term of up to 60 months – automatically or subject to further analysis. The bank allows a grace period of up to 6 months; payment in a lump sum on maturity or under arrangement; loan servicing in bank way or combined (in bank way and cash). The bank accepts real estate as collateral. Practice Plus loans for operating or mixed purposes: amount up to BGN 170 000 and term up to 18 months; revolving for 60 months; single decrease of amount at end of period or under arrangement; repayment in bank way or combined (in bank way and cash). The bank has not announced any special lending programme or product for SMEs. It provides, however, different kinds of consumer, mortgage and other loans.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Access of SMEs to Financing</th>
<th>Loans according to the bank’s balance-sheet (31 December 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Loans for commercial real estate and construction</td>
</tr>
<tr>
<td></td>
<td>Thousand BGN</td>
</tr>
<tr>
<td><strong>Commercial loans</strong></td>
<td><strong>Total commercial loans</strong></td>
</tr>
<tr>
<td>Encouragement Bank</td>
<td>42553</td>
</tr>
<tr>
<td>Eurobank</td>
<td>131527</td>
</tr>
<tr>
<td>First Investment Bank</td>
<td>494573</td>
</tr>
<tr>
<td>Hebro Bank</td>
<td>247759</td>
</tr>
<tr>
<td>Municipal Bank</td>
<td>114406</td>
</tr>
<tr>
<td>ProCredit Bank</td>
<td>139471</td>
</tr>
<tr>
<td>Raiffeisenbank (Bulgaria)</td>
<td>621687</td>
</tr>
<tr>
<td>Rosexinbank</td>
<td>185682</td>
</tr>
<tr>
<td>SG Expressbank</td>
<td>204806</td>
</tr>
<tr>
<td>United Bulgarian Bank</td>
<td>70936</td>
</tr>
<tr>
<td>Unionbank</td>
<td>144668</td>
</tr>
<tr>
<td>ING Bank – Sofia Branch</td>
<td>136181</td>
</tr>
<tr>
<td>Piraeus Bank – Sofia Branch</td>
<td>185962</td>
</tr>
<tr>
<td>Total banking system</td>
<td>6862149</td>
</tr>
</tbody>
</table>

Source: BNB; Commercial Banks in Bulgaria, quarterly bulletins and own calculations, 2003
The bank has not announced any special lending programme or product for SMEs, but it offers a couple of loan products some of which could support the business of micro enterprises (e.g. car purchase loan, loans against life insurance or overdraft on debit cards).

**Central Cooperative Bank**

CCB provides loans to small and medium-sized enterprises in the trade, food and light industry. It provides short-term loans for circulating assets; short- and medium-term investment loans; bank guarantees. The bank finances programmes within the State Fund Agriculture.

**Corporate Commercial Bank**

The bank has not announced any special lending programme or product for SMEs, but it provides different types of corporate loans.

**DSK Bank**

DSK Bank works on agreements for lending to small and medium-sized enterprises signed with employers’ organizations – BIA, BCCI, BHRA. The bank provides different types of loans – standard, revolving, and credit lines. There is no ceiling. The bank provides investment loans to SMEs with term of loan up to 6 years. The bank requires the borrower to prove 20% own input in the project for which the loan is provided. Investment loans are standard, with drawdown of funds in a lump sum or in portions, and are repayable based on agreed repayment plan. Drawdown and grace periods can be negotiated.

Amounts of investment loans are negotiable. Rates of interest are calculated as a sum of a minimum rate of interest fixed by the bank and differentiated premiums depending on the term of loan and on the assessment of customer’s creditworthiness. DSK Bank also provides investment loans for SMEs at an amount of BGN 3000 to 70 000 or the equivalent in EUR/USD. Companies having no business history may also apply for loans.

The maximum term of loan is 5 years; for new construction, reconstruction and expansion it is up to 7 years. Standard loans are drawn down and repaid based on an agreed repayment plan in monthly installments and admissible grace period on the principal of up to 6 months; for new construction, reconstruction and expansion the grace period is up to 8 months. The bank allows credit lines – disposing of a fixed amount for a fixed term and overdraft. Overdraft is allowed to customers who have opened deposit accounts with the bank under specified conditions not less than six months earlier.

The bank accepts all standard banking collateral – mortgaged real estate, pledged machines and equipment, motor vehicles, goods and materials, money in BGN and foreign currency, government securities, etc. The bank does not require the customer to provide any business plan or cash flow forecast. The actual state of the business is established by a protocol of findings drawn up in cooperation with a credit expert of the bank.

**ElBank**

ElBank finances small enterprises, agricultural producers, cooperatives, start-up companies.

**Encouragement Bank**

Encouragement Bank offers to SMEs Euro-window Investment Loans. Projects of value from EUR 40 000 up to 1 000 000 are eligible for financing. The bank requires the borrower to have not less than 25% own input in total project value. Amount of loan varies between EUR 20 000 to 250 000 or the equivalent in any active international market currency. Term of loan is 4 to 10 years. Principal is repayable after a grace period which corresponds to project’s putting into operation time limit, but not more than 3 years. Repayment of principal and interest is negotiated with borrowers on an individual basis.

The bank accepts as collateral the standard banking practice assets. The bank informs that registered loan applications are considered on a prompt basis. Programmes such as financial market operations, transactions in real estate, housing construction, agriculture, processing of some agricultural products, gambling, military industry are not eligible for financing from this program. The bank provides loans under another 5 programmes – Investment Lending to SMEs, Export Financing, Long-term Investment Financing, and Investment Lending Programme within SAPARD. The bank launched in cooperation with the Agency for SME a competition for new projects. The winner will be awarded a low-interest loan.

**Eurobank**

Eurobank provides to SMEs doing business for not less than 6 months operating Express Euro Loans for circulating assets and investment purposes with the following parameters: maximum amount – USD/EUR 15 000; nominal rate of interest - 13% per year; repayment term – 2 years in equal monthly installments; collateral – mortgaged real estate or pledged goods, machines, equipment, etc. amounting to 145% of the loan amount; documents considered within 10 working days.

The Euro Loan Product for circulating assets or investment targets SMEs operational for not less than 6 months; it has the following parameters: maximum amount – USD/EUR 100 000; nominal rate of interest - 14% per year; documents considered within 10 working days. The other parameters are as for Express Euro Loan.

The bank provides loans for circulating assets or investment to SMEs operational for not less than 6 months under a programme with the German KfW. Amount – up to BGN 250 000 or the equivalent in USD/EUR; term – up to 3 years. Interest: 14-18% per year. Repayment: in equal monthly installments; loan documents considered within 14 days. Collateral – as for Euro Loans.

The bank also provides Invest and Optima Loans in BGN. Optima loans are granted for circulating assets; amount up to BGN 150 000; term – up to 24 months; interest – 12.5% per year; grace period – up to 3 months; repayment – in equal monthly installments. The bank requires as collateral mortgaged real estate or pledged goods, machines, equipment, etc. Documents are considered within 7 working days. Commission – 1% of loan amount.

Invest Loans – for investment projects. Amount – up to BGN 250 000. Rate of interest – 13.5% per year. Term – up to 36 months. Grace period – up to 6 months. Repayment in equal monthly installments. Accepted collateral: mortgaged real estate or pledged goods, machines, equipment, etc. Documents considered within 10 working days. Commission – 1%.
<table>
<thead>
<tr>
<th>First Investment Bank</th>
<th>Municipal Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank finances small and medium-sized businesses under its Business Dynamics Program. Priority projects include manufacture, export, tourism, services and projects involving preventive environment protection measures. The bank provides the following types of loans: standard, overdraft, revolving, credit lines, bank guarantees and other financial instruments depending on each specific case. Loans are provided in BGN, EUR, and USD. The bank has no ceiling on loans, but their amount is dependable on the proven customer’s needs, repayment sources, the type and amount of collateral. Term — up to 1 year for loans for circulating assets; up to 3 years for investment loans. Interest is payable on a monthly basis and the principal — based on an agreed repayment plan with a grace period option. The bank accepts all legal types of collateral; the fair value of the collateral as determined by independent experts must cover the debt to the bank, but in any event it should be not less than 125%. The collateral must be insured in favor of the bank. The insurance must cover all appropriate risks. Interest is agreed individually for each transaction. The bank offers a special lending programme for revolving loans – 1 to 5 months. Repayment plan: as above. Grace period: depending on the investment project and the nature of company’s business. The Perspectives Investment Loan. Amount of loan: BGN 5000 to 250 000 or the equivalent in EUR or USD. Rate of interest for loans in BGN – BRI + 9% to 13% depending on customer’s specificity; for loans in EUR/USD – 6 month EURIBOR/LIBOR + 7% to 10%, depending on the customer. Term of loan – 1 to 4 years. Term of drawdown – within 2 to 5 months from loan agreement date, depending on the project. Grace period: maximum 3 to 6 months following the agreed drawdown term, depending on the customer. Repayment plan: equal monthly installments or another adequate repayment plan depending on the investment project and the nature of company’s business.</td>
<td>Municipal Bank provides loans for circulating assets and investment loans to small and medium-sized enterprises. The bank offers investment loans for projects with not less than 20% borrower’s input. Applications for loans are considered within 30 days following submission of complete sets of documents in accordance with Municipal Bank’s Rules. The rate of interest for loans in BGN is BRI + up to 12 points; for loans in foreign currency it is in accordance with international market rates. ProCredit Bank offers Sprint Express Business Loans granted without collateral or guarantors. Amount – up to BGN 5000; the bank replies to the borrower within 24 hours. The bank offers as a bonus a debit card and free insurance. The rate of interest on Sprint Loans is 17.88% per year. The bank offers ProCredit Acceleration loans up to BGN 50 000 for investment purposes and circulating assets at facilitated administration scheme and reply within 48 hours. The bank requires borrowers to have not less than 3 months of business experience. It offers rate of interest bonuses on the condition that the customers make payments in the country and abroad via ProCredit Bank (Bulgaria) and/or have deposit accounts in the bank. Acceleration Loans are granted for a term of up to 5 years; the bank allows for negotiation of a flexible repayment plan. The Business and Development lending programmes are traditional for the bank. Loans are granted without 7 days; business plan is not required. ProCredit Business targets small and medium-sized companies in the trade, services and production sectors in towns where ProCredit Bank has branches and loan offices. The loan is granted for circulating assets. Not less than 6 months of market experience is required. Term of loan is up to 3 years. Loans are repayable in equal monthly installments. ProCredit Development is granted for investment purposes. The bank requires not less than 6 month of market experience. Term of loan is up to 7 years; repayment in equal monthly or quarterly installments; grace period option. The bank may also offer other repayment facilities. The following is accepted as collateral: a car, business or production equipment; goods; guarantor – physical or legal person; such other collateral as the credit expert may deem reasonable. The bank replies on the loan within 14 days following submission of documents. Financing under the Business and the Development programme is up to 5% of bank’s capital – up to BGN 1 200 000 or the equivalent in EUR/USD.</td>
</tr>
<tr>
<td>Hebros Bank</td>
<td>ProCredit Bank</td>
</tr>
<tr>
<td>Under its Perspectives Programme Hebros Bank offers four lending products for the small and medium-sized business. The bank considers loan documents and replies within 4 days. The Perspectives Investment Loan. Amount of loan: BGN 5000 to 250 000 or the equivalent in EUR or USD. Rate of interest for loans in BGN – BRI + 8% to 13% for the different customers; for loans in EUR/USD: 6 month EURIBOR/LIBOR + 6% to 10% for the different customers. Term of loan: up to 18 months. Term of drawdown: within 2 months following loan agreement date. Grace period: up to 3 months; revolving loans – up to 5 months. Repayment plan – as above. Perspectives Option Loan for circulating assets. The option enables the borrower to revolve the loan for one or two years. Amount of loan: BGN 5000 to 250 000 or the equivalent in EUR/USD. Rate of interest: for loans in BGN – BRI + 8% to 13% for the different customers; for loans in EUR/USD: 6 month EURIBOR/LIBOR + 6% to 10% for the different customers. Term: 6 months to 1 year, with maximum 2 options allowed at conditional repayment term of up to 1 year. Drawdown term: within 2 months following loan agreement date. Grace period: depending on loan’s type and term: for purpose loans – up to 3 months; for revolving loans – 1 to 5 months. Repayment plan: as above. The bank offers a special lending programme for agriculture: the Agriculture Perspectives Standard Loan for circulating assets. The bank works on the Perspectives Programme in cooperation with EBRD which has provided the bank with a facility of EUR 6 million. Eligible borrowers under the programme include: small businesses, companies, sole traders and other legal subjects within the meaning of the Commercial Code, private farmers, craftsmen and persons with liberal professions; with over 51% Bulgarian ownership and management by Bulgarian nationals, with less than 100 full-time employees. In special cases of labour-intensive production applications from companies with up to 250 employees are also considered.</td>
<td>ProCredit Bank offers Sprint Express Business Loans granted without collateral or guarantors. Amount – up to BGN 5000; the bank replies to the borrower within 24 hours. The bank offers as a bonus a debit card and free insurance. The rate of interest on Sprint Loans is 17.88% per year. The bank offers ProCredit Acceleration loans up to BGN 50 000 for investment purposes and circulating assets at facilitated administration scheme and reply within 48 hours. The bank requires borrowers to have not less than 3 months of business experience. It offers rate of interest bonuses on the condition that the customers make payments in the country and abroad via ProCredit Bank (Bulgaria) and/or have deposit accounts in the bank. Acceleration Loans are granted for a term of up to 5 years; the bank allows for negotiation of a flexible repayment plan. The Business and Development lending programmes are traditional for the bank. Loans are granted without 7 days; business plan is not required. ProCredit Business targets small and medium-sized companies in the trade, services and production sectors in towns where ProCredit Bank has branches and loan offices. The loan is granted for circulating assets. Not less than 6 months of market experience is required. Term of loan is up to 3 years. Loans are repayable in equal monthly installments. ProCredit Development is granted for investment purposes. The bank requires not less than 6 month of market experience. Term of loan is up to 7 years; repayment in equal monthly or quarterly installments; grace period option. The bank may also offer other repayment facilities. The following is accepted as collateral: a car, business or production equipment; goods; guarantor – physical or legal person; such other collateral as the credit expert may deem reasonable. The bank replies on the loan within 14 days following submission of documents. Financing under the Business and the Development programme is up to 5% of bank’s capital – up to BGN 1 200 000 or the equivalent in EUR/USD.</td>
</tr>
</tbody>
</table>
Within its initiative Programme Reiffeisen Bulgaria offers mortgage and non-mortgage loans in EUR and USD for investment purposes: purchase of real estate; construction and repair works; purchase of machines and equipment. Loans are also provided for circulating assets. Amount – up to EUR 120 000 or the equivalent in USD. Amount of loans for investment is up to 80% of the investment amount (VAT excluded). Minimum loan amount – EUR 2000. The term of mortgage loans depends on their purpose: purchase of real estate – up to 7 years; construction and repair work – up to 5 years; purchase of machines and equipment – up to 5 years; circulating assets – up to 3 years. The bank allows a grace period of up to 6 months for investment mortgage loans and up to 3 months for loans for circulating assets. The bank replies on the loan within 7 working days following submission of all documents. Lawns are drawn down against presentation of cost verification documents. Principal is repayable in equal monthly installments; interest is payable on a monthly basis on the balance of principal. Annual rate of interest is 3.5% (as of 12.11.2003) + premium of 7 to 10% for mortgage loans in EUR and 1.56% (as of 12.11.2003) + premium of 7 to 10% for loans in USD. The bank charges administration fee of 1% per year. Penalty interest: BRI in both currencies + premium of 15%. Pre-term repayment fee – 3 %. Loan application treatment fees are: for micro loans – BGN 20; all other – EUR 100. The bank charges a negotiation fee of 0.5% per year. Collaterals on loans include: mortgaged real estate, minimum 130% of market value; promissory note for the loan amount (principal + interest) for the corresponding term, issued by the borrower and guaranteed by the partners; 100% insurance on mortgaged property at market value.

Traditional (non-mortgage) Initiative Loans are provided in BGN, USD and EUR. These are term loans; the bank allows overdraft or revolving credit to customers that have been with the bank for not less than 1 year. Minimum loan amount – EUR 2000, ceiling – EUR 30 000 or the equivalent in USD or BGN. Term of investment loans is up to 3 years; of loans for circulating assets – up to 2 years. The bank allows grace period of up to 3 months for investment loans and up to 6 months for loans for circulating assets. Principal is repayable in monthly installments according to the repayment plan in line with customer’s business; interest is payable on a monthly basis. Rate of interest – 9 to 15% per year depending on the term, currency and collateral of the loan.

The bank requires as collateral not less than 150% first mortgage on real estate or first special pledge on assets with no other real burden. Collateral is assessed by an independent valuator not earlier than 1 month before the application for a loan is filed. The collaterals must be insured at market value in favor of the bank. Where the customer is a sole trader, EOOD or a person with liberal profession, the bank provides a free life insurance. The bank has included the loans in the Initiative+ package of bank services for SMEs plus e-banking, money transfers and other services.

The bank has not announced any special lending programme or product for SMEs, but it provides different corporate loans.

SG Expressbank offers SG Partner – a special lending programme for small and medium-sized businesses. Under the SG Partner Programme the bank provides loans for circulating assets and small investment projects at an amount of BGN 10 000 to 50 000. Loans are also provided for real estate. Amount – up to EUR 50 000 to 50 000. Loans are repayable in equal monthly installments for a maximum term of 18 months. The bank allows a grace period of up to 2 months. No business plan is required; loans are secured by mortgaged real estate. The rate of interest on loans is 11.5% to 14%. Traders operational for not less than 2 years are eligible to apply for SG Partner.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reiffeisenbank (Bulgaria)</td>
<td>Mortgage and non-mortgage loans in EUR and USD for investment purposes: purchase of real estate; construction and repair works; purchase of machines and equipment. Loans are also provided for circulating assets.</td>
</tr>
<tr>
<td>SG Expressbank</td>
<td>SG Expressbank offers SG Partner – a special lending programme for small and medium-sized businesses. Under the SG Partner Programme the bank provides loans for circulating assets and small investment projects at an amount of BGN 10 000 to 50 000. Loans are also provided for real estate. Amount – up to EUR 50 000 to 50 000. Loans are repayable in equal monthly installments for a maximum term of 18 months. The bank allows a grace period of up to 2 months. No business plan is required; loans are secured by mortgaged real estate. The rate of interest on loans is 11.5% to 14%. Traders operational for not less than 2 years are eligible to apply for SG Partner.</td>
</tr>
</tbody>
</table>

The information contained in Table 16 is valid as of the second half of 2003. It should be noted, however, that the dynamics of retail banking and of Bulgarian small and medium-sized business banking implies frequent changes in the information for each bank.

A natural reason for the interest of banks in financing SMEs is also the fact that SMEs state the bank loan as the most accessible source of financing. For example, the survey conducted by the Estat Agency in early October 2003 reveals that respondents state the bank loan (for circulating assets or

41 The survey covers the managers of 506 small and medium-sized enterprises and a 10-percent control group of big companies.
for investment purposes) as the most frequently used source of additional financing (Figure 18).

Figure 18. What type of additional financing have you used?*

* % of respondents. The sum exceeds 100 because more than one answer is possible. Source: Estat Agency

Figure 18 demonstrates the popularity of bank loans as a source of financing among SMEs. Data are fully compatible with another survey of a representative sample of the whole Bulgarian industrial sector42. The analysis of the answers about the additional financing used in the last three years (by sources and types of financing) also reveals the high share of bank loans, particularly loans for circulating assets – nearly half of all answers (or 48.48%). Loans for working capital account for over 50% of bank loans and for over one third of all answers (34.49%). Bank loans for investment purposes are not so frequently used (13.99% of all answers).

The results of this survey were also analyzed by size classes of enterprises (in terms of employment). Thus bank financing for circulating assets and for investment purposes had the highest relative weight with larger companies. On the other hand, mobilization of own resources and increase of equity capital proved most popular among small companies (Figure 19).

Thus the surveys of the additional sources of financing suggest different access levels for the different size classes of enterprises. Bank lending is a preferred source of additional financing for all SMEs, but it appears more accessible for larger enterprises. Therefore, the analysis of the access of SMEs to financing would not be complete without a presentation of the alternative (to the banking system) sources of financing for SMEs.

2. Alternative Sources of Financing for SMEs

A number of surveys place the access to financing among the major barriers to the development of SMEs. The above-mentioned survey conducted by the Estat Agency in October 2003 confirms that the shortage of financial resources for investment, renovation and circulating assets is a major problem for SMEs (Table 17).

Table 17. What are the major internal problems for your company?*

<table>
<thead>
<tr>
<th>Problem</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortage of financial resources for investment and renovation</td>
<td>46.0</td>
</tr>
<tr>
<td>Shortage of financial resources for circulating assets</td>
<td>44.4</td>
</tr>
<tr>
<td>High consumption of prime and raw materials and energy</td>
<td>20.8</td>
</tr>
<tr>
<td>Inadequate quality of machines, equipment, technology</td>
<td>16.0</td>
</tr>
<tr>
<td>Scarcity of machines, equipment, technology</td>
<td>14.0</td>
</tr>
<tr>
<td>Low quality of labour force</td>
<td>8.0</td>
</tr>
<tr>
<td>Poor marketing organization</td>
<td>4.1</td>
</tr>
<tr>
<td>Poor organization of the management process</td>
<td>2.1</td>
</tr>
<tr>
<td>Poor organization of the production process</td>
<td>1.8</td>
</tr>
<tr>
<td>Other</td>
<td>9.4</td>
</tr>
<tr>
<td>NIL</td>
<td>12.6</td>
</tr>
</tbody>
</table>

* In %. The sum exceeds 100 because more than one answer is possible. Source: Estat Agency

The different sources of financing for SMEs should help to solve the problem with the shortage of financial resources in SMEs. Major non-bank sources of financing for Bulgarian SMEs include:

- Capital market
- Leasing
- Guarantee facilities
- Government, non-government and international programmes
- Access to public procurement
- Informal sources

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42 The survey was conducted by the Center for Economic Development in the first quarter of 2002 within a project of the Japanese Agency for International Development and covered 2250 enterprises in the real sector. This has been one of the largest real sector surveys in Bulgaria, and the sample is representative at a level of going concern.
The significance of some of these sources has been illustrated in Figures 18 and 19 above. A more detailed comment on the popularity and accessibility of these sources is presented hereunder:

2.1. Capital Market and Venture Capital Funds

Despite the positive development of the Bulgarian capital market in the last two years, its role in the financial space remains negligible. Stock-exchange liquidity increased notably on some positions, but generally remains low.

In Bulgaria the capital market is unpopular as an alternative environment for issuers and investors and this is especially true for the SME sector. Bulgaria’s real sector regards the additional financing through share and bond issues as expensive or unknown. The real sector survey mentioned above produced discouraging results in terms of the knowledge of financing through stock-exchange bond issues (Figure 20). Only 11.42% of all respondents accept this financing as generally possible. Financing through security issues is most frequently stated as unknown. This could hardly be indicative in an environment of obvious lack of popularity of this type of non-bank financing, but the fact that only 3.25% of the respondents consider that the securities issuing cost is high deserves attention. One can assume that the size class (in terms of employment), the duration, the volume of sales or the amount of equity capital are all in inverse proportion to the popularity of the capital market as a source of financing.

Table 18. Some Bulgarian Venture Capital Funds.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caresback Bulgaria</td>
<td>Established and managed by SEAF (Small Enterprise Assistance Funds), through SEAF Bulgaria. This is a venture capital fund for encouragement of entrepreneurship through long-term financing of small and medium-sized enterprises. Investment funds are provided by the European Bank for Reconstruction and Development (EBRD) and the US Agency for International Development (USAID). As funds have been exhausted, Caresback is not making new investments. Caresback has invested in 23 Bulgarian enterprises, including Dorko – ice-cream producer, Pain d’Or – paste producer and Ken – producer of perishable sausages. Other companies in the Caresback portfolio operate in the food industry, agriculture, textile and light industry. Since end of 2000 the Fund does not make investment; it only buys back investments made. It is replaced by Trans-Balkan Fund.</td>
</tr>
<tr>
<td>Trans-Balkan Fund</td>
<td>Established and managed by SEAF (Small Enterprise Assistance Funds) through SEAF Bulgaria. The following are shareholders in the Fund: USAID, International Financial Corporation (IFC) Norwegian investment fund for the developing countries (Norfund), Black Sea Trade and Development Bank (BSTDB), Finnish Fund for Industrial Cooperation (FinnFund) and Swiss Economic Cooperation Office (SECO). The fund provides long-term financing and support for the development of small and medium-sized private enterprises (SME) with a capacity to grow fast. Trans-Balkan Fund Bulgaria has a capacity to invest USD 100 000 to 1 000 000, buying shares in SMEs from new emissions and usually acquires an interest of 20% to 49%, depending on the company’s valuation. The Fund is usually a shareholder in a company for 3 to 5 years. After this period the Fund and its partners strive to sell the business at a good yield. The other shareholders may buy the interest of the Fund. The fund’s portfolio includes: Ecoprocess, East Gas Company (Gasco), Mercurius, Marker, Tepetec Electronics and US Meds. Since its establishment in 2001 Trans-Balkan Fund invested till end of 2003 a total of EUR 3 200 000 in 6 companies, of which EUR 1 600 000 in 2 companies in 2002.</td>
</tr>
<tr>
<td>EuroMerchant</td>
<td>These two funds are managed by the Greek Global Assistance Funds. Funds come from EBRD, IFC and private investors. The Bulgarian portfolio includes Chipita Bulgaria, Balkan Restaurants (partner - Goody’s), Slinid and Steelmel.</td>
</tr>
</tbody>
</table>

One of the objective reasons for the impeded access of SMEs to the capital market has been criticized for years but is not removed yet. Article 4 of the SME Act excludes SMEs from the group of public companies and thereby automatically deprives them of the opportunity to issue securities and register them for secondary trading on the stock exchange. Obviously, such enterprises are less attractive for some potential investors.

This is a problem concerning SMEs as well as capital market actors, because it deprives the latter of the opportunity to acquire interest in enterprises with a capacity to grow fast (which are generally exactly SMEs). This is the basic argument in support of the amendments to the draft law on promoting investments in small and medium-sized enterprises which Bulgarian Stock Exchange – Sofia AD put forward in 2003. Proposals target both rewording of Article 4 of the SME Act and inserting a new provision in the Act on Public Offering of Securities regulating the set up (at the unofficial stock-exchange market) of a special market for trade in shares and bonds of SMEs under the SME Act.

Figure 20. What is your opinion of the financing through stock-exchange security issues? (percentage of respondents)


43 This draft is commented below.
In Bulgaria lease financing picked up speed a few years ago, at the time when bank financing was rather inaccessible. Many leasing companies are operating on the market today; banks also set up their leasing affiliate companies or buy existing companies specialized in this business (the National Bank of Greece, Hebro Bank, Unionbank, Roseximbank, Raiffeisenbank and ProCredit Bank have such companies).

Some pioneer and currently operational leasing companies, which also finance SMEs, are presented in Table 19.

### Table 19. Some Leasing Companies in Bulgaria

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interlease</td>
<td>The National Bank of Greece and the Bulgarian Industrial Association are shareholders in the company. Interlease finances the purchase of quality production equipment, transport vehicles, passenger cars, office equipment and real estate. As at end of 2002 company’s assets exceeded BGN 70 m. Interlease standard financing conditions are: Value of transactions: EUR 50 000 to 1 500 000; Rate of interest: annual rate of interest of 8% to 16 % on the outstanding principal, formed as EURIBOR + premium; Term of financing term: 1 to 4 years; Currency of financing: EUR (USD as an exception). Interlease prefers to finance new equipment, however depending on customer’s risk and the characteristics of the equipment it would also finance second-hand machines and equipment. Typical examples of acceptable second-hand equipment include trailers, buses and mechanical equipment. The warranty service rights are transferred by way of the lease contract from Interlease to the lessee.</td>
</tr>
<tr>
<td>Hebros Leasing</td>
<td>Hebros Leasing is a leasing company focused on supporting Bulgarian small and medium-sized business. Its basic scope of business includes purchase and leasing of fixed assets. As a member of the Hebros Bank Group the company is able to combine different forms of financing for the benefit of its customers and suppliers. Since its establishment till end of 2002 Hebros Leasing was a party to 454 lease contracts, 167 of which are active. As at end of 2003 the company’s lease portfolio amounts to BGN 7 000 000.</td>
</tr>
<tr>
<td>Unleasing</td>
<td>Unilesaing is a leasing company established in early 2002. It was set up following an agreement with Lukoil – Bulgaria for lease of equipment for franchising oil stations of the oil company. The lease of equipment for the oil business is a major priority for Unilesaing.</td>
</tr>
</tbody>
</table>

The fact that SMEs cannot be public companies under the Bulgarian law is one of the reasons that venture capital funds are not popular as an alternative source of financing for SMEs. The question is about venture capital funds set up for the purpose of investing in SMEs, for which it would be easier to come out on the stock exchange after the term of investment expires (and not about a couple of Bulgarian investment companies which emerged from the previous privatization funds)\(^{44}\). Table 18 below presents the venture capital funds which have been more active in Bulgaria in recent years.

The information presented in Table 18 is certainly not exhaustive and should be continuously updated.

### 2.2. Leasing

Figure 19 demonstrates the significance of lease financing as an alternative to bank loans. A number of surveys on the access of Bulgarian SMEs to financing confirm the growing accessibility of the lease financing in our country\(^{45}\).
According to media-published expert evaluations of Interlease AD\textsuperscript{[46]}, 2003 total lease sale transactions in Bulgaria amounted to EUR 350 - 400 m, and the lease market registers growth of about 50% per year in value terms. The Bulgarian lease market offers financing for purchase of the following basic commodity groups: motor vehicles, production machines and equipment, consumer goods, agricultural equipment and real estate. At this stage financial leasing is more popular than operational leasing.

A lease market survey conducted in November 2003 by the Bulgarian Association of Leasing Companies (BALC) reveals that car sales register the highest share in the commodity structure of the Bulgarian lease market (76% for 2002). The corresponding car importers register the highest market share. Equipment transactions are rated second (23.5% 2002). But Interlease AD, which has the highest share in general leasing (26% in 2002 according to BALC’s evaluations) is not a member of the Bulgarian Association of Leasing Companies. The company itself states a share of 80% in the production equipment lease market.

The information presented in Table 19 is certainly not exhaustive and should be continuously updated. Along with the companies mentioned above, many other firms offering lease financing for purchase of agricultural equipment, cars, computer equipment, white and black goods, are also operating on the Bulgarian market. Today leasing emerges as a real alternative to bank financing; with lease supply expected to increase in response to the growing need of lease financing owing to the upward trend in economic development.

### 2.3. Guarantee Facilities

The guarantee of loans to SMEs is a basic tool employed to facilitate the access to financing. The different guarantee facilities (funds, agreements) are at the root of the government support for the SME sector. Unfortunately, Bulgaria’s experience in this field has been rather negative so far.

The Small and Medium-sized Enterprises Fund at the then Ministry of Industry was closed in early 1999. All subsequent efforts to set up national, regional or sector guarantee funds proved unsuccessful. At the National Forum on Problems of Small and Medium-sized Enterprises organized in March 2003 by the Agency for SME, administration representatives definitely stated that no guarantee fund shall be employed to finance a portion of the security on loans, although the set up of such fund was in line with the objectives of the SME Act\textsuperscript{[47]}.

As the Small and Medium-sized Enterprises Act failed to regulate the basic problem of financing the Bulgarian small and medium-sized business, a draft law for amendments to the SME Act was introduced in the National Assembly on 25 February 2003. Proposals therein aim at filling this gap in the legislation. The draft law provided for the set up of a Guarantee Fund with up to 51% state interest to guarantee up to 50% of the collateral requested by banks on loans to the small and medium-sized business, which would allow the State to implement its policy for promoting the development of this business.

At a discussion on the proposed amendments to the SME Act at the end of 2003, Ministry of Economy representatives confirmed that the set up of a guarantee fund for support of small and medium-sized enterprises was abandoned. The withdrawal of the State from this commitment was justified with the impossibility to allocate funds from the budget to a guarantee fund for loans; however indications of considering other options were also given. A possible solution would be to open a joint account (with inputs by government and private institutions) administered by Encouragement Bank. Such guarantee facility could be based on the concept developed by the Agency for SME (with financial support from the U.S. Agency for International Development, advisory support from

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\textsuperscript{[46]} Capital weekly, No. 6/ 2004

\textsuperscript{[47]} Art. 13 of the SME Act regulates as a major sector promoting measure the guarantee of the credit risk on loans to SMEs.
PHARE, and in cooperation with the Encouragement Bank) in 2002.

Despite the above observations, some government initiatives in support of the access to financing via different public guarantee facilities have been observed in recent years. These are implemented in the first place along the line of Bulgaria’s accession to the EU. At EU level the SME Guarantee Facility is highlighted as a major instrument under the Multi-annual EU Programme for Development of Enterprises and Entrepreneurship, with a budget of over EUR 200 m. In December 2001 accession countries, Bulgaria included, were granted access to this guarantee facility.

In April 2002 Bulgaria acceded to the European Charter on Small Enterprises. The annual reports on the implementation of this charter contain a review of the existing Bulgarian guarantee facilities with state participation. The latest review reports progress and outlines a very successful initiative: the Guarantee fund for micro-credits at the Ministry of Labour and Social Policy established in November 2001. The fund was set up with a budget of BGN 20 m. The project was first launched in 18 pilot Bulgarian municipalities and since August 2002 it has become countrywide.

The Guarantee Fund for micro-credits provides access to credit resources for small and medium-sized enterprises, unemployed physical persons, craftsmen, cooperatives and agricultural producers who at this stage cannot satisfy the general conditions of banks. Access to loans for start-up businesses, as well as subsidized interest for disabled persons is also provided. The fund makes financial guarantee for up to 100% of the principal.

The Guarantee Fund works in partnership with the following banks: United Bulgarian Bank, Hebro Bank, Eurobank, EIBank and CCB. As of 30 January 2004, the fund-guaranteed projects statistics is: 5 891 application forms filed, 4 248 projects amounting to some BGN 44 m approved (by the partnership banks and the Ministry).

Besides the Guarantee Fund for micro-credits, some smaller guarantee facilities are also in place: the UNDP-supported Guarantee Fund at the Business Centre in Devin and the Russe Guarantee Fund supported by the PLEDGE Programme (Partners for Local Economic Development and Governance Efficiency).

In 2002 the Municipality of Sofia set up a Guarantee Fund for Small and Medium-sized Enterprises under the Privatization and Post-privatization Control Act, §3, Additional Provisions. Other Bulgarian municipalities have also set up such funds (under the Privatization and Post-privatization Control Act again), but return statistics about the operation of these funds is not available yet.

A declaration for the set up of a Guarantee Fund of EUR 14 m to support French investments in Bulgarian small and medium-sized enterprises was signed in November 2003. The fund will support joint projects of Bulgarian and French companies and will encourage French investments in Bulgaria. The enterprise or the lending institution financing its input in the joint project will be provided with a guarantee of 50%. The newly set up guarantee fund will play the role of a "financial leverage" for development of the Bulgarian-French partnership of small and medium-sized enterprises in the period 2003-2007. Both parties will discuss presented and supported projects on an annual basis with a view to ensure their optimum implementation.

Other guarantee facilities financed and supported by international donors are also in place. Some of these are presented below.

2.4. Government, Non-government and International Programmes

Bank loans, capital market, venture capital funds, leasing, and guarantee facilities are not the only sources of SME financing in Bulgaria. Other government, non-government and international programmes also provide direct financing (often in combination with different advisory and information services or forms of subsidy).

Some of these programmes were outlined above insofar as they belong to the discussed financing source category. Sometimes programmes have common fields of application and cannot be differentiated in analytical or statistical aspect. The programmes discussed below are grouped in three categories (government, non-government and international), with the reservation that different products, instruments or return statistics are certainly not exhaustively mentioned.

Three government programmes for providing access to finance for SME should be mentioned as outstanding examples of recent years: the Investment Fund for SME Financing with State Participation, the Act on Promoting Investments in SME and the incorporation of Encouragement Bank.

In October 2002 the then management of the Ministry of Economy announced a package of measures for improved business environment and promotion of economic growth. These included set up of Investment Fund for SME Financing with State Participation. The Fund was envisaged to operate as a venture capital fund (like those described above). The state interest was to amount to 50% of the capital (the latter was to amount to not more than BGN 100 m) and funds were to come from the fiscal reserve. The duration of the fund was to be 10 years, with state participation decreasing in the first five years.

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49 E.g. Guarantee Fund at the Ministry of Labour and Social Policy.
and subsequently eliminated. Investments were to amount to BGN 1 to 15 m and the investment period was to be 3 to 5 years. The fund was to be open for co-financing from local and foreign institutional investors and banks.

The Investment Fund was to promote the SME sector and in November 2003 the Government approved a report of the Ministry of Economy for set up of the fund. Later a competition for fund manager was announced. But the idea was strongly criticized because of the need to allocate funds from the fiscal reserve and the fears of lack of transparency and inefficiency, including inequality of the SME sector in investment management. The project is blocked for now.

The objective of the Act on Promoting Investments in SME introduced in the National Assembly in the first half of 2003 was to promote investments in SMEs via new subjects – the so-called “venture capital investment companies”. These companies were designed as a form of venture capital funds. The draft law has been discussed, but is not passed on first reading yet and may be further amended.

Some aspects of Encouragement Bank’s activities were presented above in the general context of the banking sector’s attitude to the SME sector. The incorporation of the bank in 1999 remains one of the few real examples of the efforts for Government commitment to providing access to finance for SMEs.

The State is a principal shareholder represented by the Ministry of Finance. The bank has declared two major objectives of its activity – providing financial support for SME projects and promoting the development of Bulgaria’s export capacity. As of 30 September 2003 the bank’s share capital amounts to BGN 29 574 000, total assets amount to BGN 63 772 000, and net loans to non-financial institutions and other customers amount to BGN 37 406 000.

It should be noted, however, that Encouragement Bank was incorporated at a time when the Bulgarian banking system desisted from lending to the non-financial private sector, SMEs included, whereas today the bank competes directly with all other commercial banks in Bulgaria. Different non-government financing programmes targeting the SME sector have emerged in recent years, but it is not the purpose of this report to describe them in detail. Yet three programmes deserve attention.

The micro-credit Programme of the Resource Center Foundation, Sofia, was launched in 1999. RCF realizes this programme in cooperation with The Soros International Economic and Development Fund (SIEDF), New York, as financial guarantor of the lending program, The Open Society Institute, New York as funds provider for program’s operational costs and United Bulgarian Bank (UBB) as the loan provider. In the Municipality of Sliven the programme is implemented in cooperation with Reihlfeisenbank as the loan provider and the Regional Center for Economic Development, Sliven. The programme can be regarded as a guarantee facility and its effect could be assessed within the bank financing of SME topic discussed above.

The programme targets Bulgarian regions with high unemployment levels, low economic growth and several distinct ethnic communities. The last step in programme development was the incorporation of Micro-fund EAD in implementation of the strategic goal to have in place a sustainable micro-financing institution. To date the Foundation reports 50 1250 granted loans amounting to a total of BGN 15 m; over 1000 new jobs and support for the start-up of over 50 companies.

Nachala Cooperative is also a non-government program. It is part of the international network of Opportunity International (a global NGO for creating employment and promoting the development of small business). The Cooperative was registered in 1997. It operates with the financial support of the U.S. Agency for International Development (USAID). The Cooperative officially reports 51 that as at 31 August 2003 it has granted more than 7400 loans amounting to over BGN 27 m. A mutual savings fund is set up at the Cooperative. It provides loans to its member-cooperators for support and development of their business.

The non-government programme Ustoi is implemented within CRS/Bulgaria (Catholic Relief Service Organization) and is financed by the U.S. Agency for International Development (USAID). The programme provides continuous access to financial services for entrepreneurs from the small business in the area of trade, services and small-scale production. Sole traders and small family businesses have access to loans without collateral by establishing guarantee groups and friendly societies. According to official information 52, 7100 loans amounting to over USD 4 m. have been granted to date.

There are also many international financing programmes for SMEs, but it is not the purpose of this report to describe them in detail. Sometimes international programmes cannot be separated from the above sources of financing because programmes are implemented via local structures and corresponding financial products.

The European Bank for Reconstruction and Development actively supports the financing of the Bulgarian SME sector in cooperation with Bulgarian banks as loan providers – through credit lines or holding interest in their capital. Credit lines have been provided to ProCredit Bank, United Bulgarian Bank, Hebros Bank, Reihlfeisen Bank, First Investment Bank, Eurobank, Unionbank and Bulgarian Post Bank. EBRD holds different interest in the capital of BNB-Paribas (Bulgaria), First Investment Bank, Unionbank and United Bulgarian Bank.

50 Source: http://micro.ngorc.net
51 http://www.nachala.org
52 Source: http://www.asme.bg/bg/funding/ustoi.htm
ACCESS OF SMEs TO FINANCING

The U.S. Agency for International Development (USAID) has different initiatives for support of the Bulgarian SME sector. Some of these were outlined above (guarantee of the energy efficiency loans provided by United Bulgarian Bank, Nachala Cooperative, and Ustoi Program). USAID’s FLAG Programme is an important element of the support for SMEs and their access to finance, although the programme is focused on providing technical assistance, advice, information, exchange of experience or support for joint projects and not on direct financing of the SME business.

Other international programmes providing finance for Bulgarian SMEs include: The FAEL Foundation (Swiss credit line administered by United Bulgarian Bank for enterprises in the forestry and agricultural sector), the Bioselena Foundation (Swiss credit line administered by United Bulgarian Bank for bio-agriculture), the credit lines of the Council of Europe Development Bank (with ProCredit Bank and Encouragement Bank as loan providers), the financing from EU’s PHARE and SAPARD programmes; the funds from the International Financial Corporation (for example, the credit line of USD 5 m for Unionbank at the end of 2002).

Conclusions and Recommendations:

The results of the survey of small and medium-sized enterprises conducted by the Estat Agency in October 2003 confirm the most frequently occurring problems of the access to financing. It has been noted (Table 17 above) that the shortage of funds for investment, renovation and circulating assets remains a major problem for the Bulgarian SMEs.

Despite the growth in lending in recent years, 71 per cent of the respondents think that interest on provided bank loans is high. Requested collateral on bank loans is also a problem – 54% percent of the respondents think that it is high. Another 27% of entrepreneurs think that the amount of collateral is acceptable but the type presents a problem.

Bank loans remain the most accessible source of financing for SMEs. Nearly 42% of the respondents in the above survey state that to date the conditions for taking a bank loan have improved compared to 2000-2001 (against bare 14 % stating that bank loan conditions are worse compared to the same period). These results are probably based on the personal positive experience of the interviewed enterprises – 38% declare that they have taken a bank loan for operational and/or investment purposes (another 0.7% have taken export loans from banks).

Based on the results of the survey and the above analysis, the following conclusions about the access to financing for Bulgarian SMEs can be made:

- The 1997 currency board arrangement contributed for a stable financial system, but the banking sector (dominating the Bulgarian financial system) primarily desisted from lending;
- a process of relative decrease of foreign assets at the expense of increased credit exposure of banks was not observed until 2000-2001;
- growing interest of banks in lending to the non-financial private sector, particularly the SME sector, is observed since 2000-2001 and is expected to increase further;
- despite all, SMEs still suffer from shortage of funds;
- interest and collateral on bank loans are still considered barriers;
- leasing is a fast-growing form of financing for Bulgarian SMEs;
- alternative sources of financing remain unknown or inaccessible;
- despite the absence of guarantee funds at national, regional or sector level, efforts are made to provide different guarantee facilities for support of SME financing;
- some government initiatives for supporting the access to financing for SMEs are blocked; and
- many non-government and international programmes for SME financing are operational in Bulgaria (some programmes are combined with other sources of financing), but these should not be regarded as a long-term alternative for private sector financing in an environment of developed market economy.

Table 20. Compliance with recommendations from previous SME reports.

<table>
<thead>
<tr>
<th>Recommendations in previous reports</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending programmes for SMEs should be made more accessible.</td>
<td>Compliance is generally along the accessibility of bank loans as an element of the lending expansion observed in recent years.</td>
</tr>
<tr>
<td>Set up of loan guarantee funds, including with foreign participation.</td>
<td>Some efforts are observed, despite that national, regional or sector guarantee funds are not in place.</td>
</tr>
<tr>
<td>Set up special departments within banks for lending to SMEs.</td>
<td>Many Bulgarian banks have set up such departments in their efforts to focus on the SME niche.</td>
</tr>
<tr>
<td>Amend regulations towards more expedient court procedures for execution of mortgages and pledges in favor of banks.</td>
<td>Partial compliance by way of some amendments to the Commercial Code and other legislation.</td>
</tr>
<tr>
<td>Improved access to information from public institutions like the Central Depository and the Register of Special Pledges.</td>
<td>Continuous compliance.</td>
</tr>
<tr>
<td>Special programmes, including in cooperation with sector organizations, for technical assistance in developing business plans and financial statements.</td>
<td>Continuous compliance.</td>
</tr>
<tr>
<td>Creating conditions for set up of private credit rating agencies and credit registers.</td>
<td>Private credit rating agencies are in place. A credit register of all loans granted by bank is under development in BNB (further to the existing register of loans above BGN 10 thousand).</td>
</tr>
</tbody>
</table>
In terms of the access to financing for SMEs, the following conclusions about the compliance with recommendations from previous SME reports of the Agency for SME can be made (Table 20).

Access to financing for Bulgarian SMEs emerges as an important characteristic of the SME policy and of the environment for development of SMEs. Despite the increasingly lower potential for government intervention in the economy through direct financing or interest in the business, the opportunities for government support of the access to financing through different guarantee facilities or co-financing and through consultations and improved administrative capacity for implementation of international (including European) programmes for SME financing remain under-employed. The Government should also prioritize some more general measures (administrative, regulatory and statutory) to generally improve the business environment and leave to the private initiative to handle the problem of the access to financing for SMEs.
Chapter five
INFORMATION SUPPLY AND TECHNICAL SUPPORT TO SMEs.
USE OF MODERN TECHNOLOGY

1. Information supply and support to SMEs

1.1. Institutions and organizations improving the information supply

In the contemporary constantly changing business environment, access to information could be vital for the performance and future positioning of any company. This is especially true for SMEs, which are not in a position to influence fundamentals and in most cases are entirely dependent on the trends of changes emerging in their operational area. In this sense easy access to timely, accurate and adequate information could guarantee proper development and growth in SME competitive power, which would inevitably affect the country’s general economic condition in a positive way.

In the Internet era quick and cheap communication has already become reality. The release of and demand for information have reached new dimensions shifting the focus from local to global scale with almost unlimited number of potential users and information sources. For this reason general knowledge of the opportunities presented by the contemporary information and communication technologies (ICT) would have a tangible effect on the good market positioning of Bulgarian SMEs.

Figure 21. Average price of Internet access for 1 hour through a dial-up connection (in BGN)

Use of the World Wide Web becomes more and more affordable on the Bulgarian market – for the period of 2000-2003 the Internet access price through a dial-up connection shows a constant decrease. The values presented in the figure show the average price (prepaid cards of different values and subscription schemes). Furthermore, they reflect accurately the tendency over the past several years.

At the same time, Internet costs in Bulgaria are absolutely comparable to those of the other EU candidate countries and the average values in the EU, and in many cases are lower. The figure below shows the price of 40 hours of web access in the busy hours (the amount is divided in two parts – payment for use of telephone network (PSTN) and payment for the service by the Internet Service Provider (ISP).

Figure 22. Internet access costs in EUR (40 hours in rush hours) – January 2003

Source: Telecommunication Markets of EU Candidate Countries, IBM Corporation, 2003

The fall in Internet access prices is accompanied by emergence and steady establishment of alternative means of web connection – through cable TV, local access networks (LAN), wireless access, and since the beginning of year 2004 – ADSL
that personal trust underlies the relationships of most of the

source to the markets of Bulgarian SMEs remain their partners

the present analysis, as of October 2003 a key information

According to a specialized sociological study for the needs of

part to the not so adequate performance of the administration

for information in the web from businesses is probably due in

formulated and coordinated policy. The relatively low demand

it is obvious that currently the country’s presentation in the

Considering the above-mentioned factors we could assume

As of the end of year 2003 all major government institutions

and agencies have their own websites, most of which contain

updated information about their activity, programmes and

projects. This also applies to the institutions, which play an

important role in SME development in Bulgaria. It is interesting
to note that according to an analysis of the Public Administration
and European Integration Institute54 the website of the Agency

for Small and Medium-sized Enterprises (www.asme.bg - 156

points) ranks first in terms of usefulness, followed by the sites

of the Ministry of Labour and Social Policy (www.mlsp.gov.bg - 155

points), the National Agency for Agriculture Services

(http://www.naas.government.bg - 147 points) and the Ministry

of Transport and Communications (http://www.mtc.government.bg - 143 points). Typical of these sites is the achieved balance

among professional design, functional arrangement and user-oriented

information. An important asset of these websites is the support of updated contents, which is not typical of all public

administration sites. Some of them contain more or less static

information (activity, set of published materials and contacts),

which by far does not justify the idea behind their existence.

Even though the creation of e-government is being discussed,

it is obvious that currently the quality and personal qualities and interpretations of the directors of the different institutions rather than on a clearly

formulated and coordinated policy. The relatively low demand

for information in the web from businesses is probably due in

part to the not so adequate performance of the administration in the virtual space.

According to a specialized sociological study for the needs of

the present analysis, as of October 2003 a key information source to the markets of Bulgarian SMEs remain their partners

and 55% of the companies follow this pattern. It is well known

that personal trust underlies the relationships of most of the

companies in the country, which explains the tendency to some

extent.

The business associations in the country (BCCI, BARDA, BIA, NASMB, NZK) offer information about SMEs and consultant services also. A common problem in this case, is that the

associations in Bulgaria, especially services-oriented ones, prefer to provide services to bigger and economically strong companies, as their expenses cannot be covered only through membership fees and services provided to the small companies.

In this regard small entrepreneurs face difficulties in receiving

support from the respective association, unless there is a

specific subsidized programme.

Business associations in Bulgaria are also relatively well

presented in the Internet. The websites of BCCI (www.bcci.bg) and BIA (b2b.bia-bg.com) can definitely be pointed out as

leaders, not only because they have good design but also

because they contain all the elements required for this type of

sites: news, principal activity, search through the web, regular

news bulletins, contacts and versions in English. The greatest

advantage of both sites is the constantly updated information

and the publication of interesting and useful materials, accessible to all visitors.

The sites of BARDA (www.barda.bg) and NASMB (www.nsmsbg.org) have limited contents and are not as frequently updated.

Their users can receive information about the organization’s goals, read the analyses and materials published and contact a

representative.

The site of NZK (National Chamber of Crafts) (www.nzk.bg) also

offers good interface and promising contents, but at completion of the present report it was not loaded with information.

Since 2000 many specialized portals for business support have

emerged in Bulgaria, useful to SMEs in terms of free information,
opportunities of advertising their activity in the global network

and search for partners from all over the world. Among the most

developed are the economic portal Econ.bg (www.econ.bg),

the business catalogue Business.bg (www.business.bg), Need.bg (www.need.bg) and several regional websites.

The results from the focus groups of entrepreneurs from

different Bulgarian regions, conducted in 2002 by the Center

for Economic Development, are also interesting. The analysis

of discussions reveals that about half of SMEs are not aware of

the services offered by the business centers and organizations

located in their operational area. The predominant number of

the companies registered at remote areas claim that

there are no such structures in their region. This leads to the

conclusion that the territorial distribution of Non-governmental Organizations (NGOs) which offer services to the business is

not optimal. Insufficient effort has been made for encouraging entrepreneurs’ business activity and entrepreneurs are still

not accustomed to using the services provided. In this sense

54 According to a study of ESTAT Agency, stated by CED for the purpose of the present report, as of October 2003 over 24 out of 100 SMEs use the web for information search.

improvement of coordination and cooperation between the organizations and institutions could help enhance the efficiency of programmes and projects, impacting positively the information dissemination.

1.2. The role of business incubators for improving SME business conditions and supporting start-up companies.

At the beginning of 2002 the number of business incubators (BI) in the European Union was nearly 900, generating about 40,000 new jobs per year. The studies reveal that three years after their start-up, about 90% of the start-up enterprises created in business incubators are still operating. At the same time, public costs for creating one job at BI is approximately EUR 4,000, i.e. relatively low in comparison to the other types of programmes and methods.

In the present economic and social conditions BIs operate mainly in the technological development and communications sectors. The figure below shows the 10 sectors with the highest number of currently operating incubators.

Figure 23. Economic sectors with the highest number of BIs

Actually operating business incubators in Bulgaria: present condition, development and expectations for changes in the future

Business incubators have been discussed for more than 10 years in Bulgaria, but there are few well-structured and successful ones. A possible reason could be the lack of knowledge of the ideas and operating principles of this type of business-supporting institution. On the other hand, the complex economic situation in the country, the lack of finance from state funds, weak entrepreneurship, and the low living standards also contribute to the slow development and spread of this type of organization.

These circumstances reflect the fact that the few operating business incubators in the country are the result of the financial and expert support from foreign donor organizations and international projects.

Below the more advanced business incubators are presented. Some of the start-up BIs and incomplete initiatives for BI creation are not included in this review.

**JOBS Project**

A steady network of 35 business centers in 42 municipalities, including 13 business incubators and 3 information business centers, has been created within the framework of the project JOBS. At this stage, 4 of the business incubators are virtual. The operating structures are shown in Table 21, their main activity being lease of premises for production or provision of services to new or faltering companies. The advantages in this case are the preferential rentals, accounting and all types of office services provided to eligible entrepreneurs.

Table 21. Operation areas under JOBS Project

<table>
<thead>
<tr>
<th>Business Centers (BC) - 35</th>
<th>Business Incubators (BI) - 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Business Centers (IBC) - 3</td>
<td>Information Business Centers (IBC) - 3</td>
</tr>
<tr>
<td>Kotel, Straldja, Sungurlare</td>
<td>Kotel, Straldja, Sungurlare</td>
</tr>
</tbody>
</table>

Most of the business incubators under the JOBS Project have already demonstrated positive results and have justified the efforts and resources invested in their creation. As of the end of 2003 there are over 100 companies within the thirteen BIs. Additionally, several hundred firms, apart from those in the incubator, have received some kind of support or funding. All BIs are managed by the respective business center. 254 micro and small-sized enterprises have been attended to through the lease system. As a result, 1,270 jobs have been created.

It is still early to judge about the success of the business incubators in the long term because the period of their active operation is still extremely short (less than 5 years). Nevertheless, their present activity can be assessed as positive even at this stage, as they play a primary role in enhancing entrepreneurial culture, in ensuring training for enthusiastic people and in influencing positively the economic development of the regions.

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The overall performance of the JOBS Project in all its components is even better. As of the end of August 2003, the project revealed very good results in terms of impact and improvement of the economic environment in the selected regions, as evident from the figures of various indicators (Table 22).

### Table 22. Development of JOBS Project

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs created</td>
<td>1500</td>
<td>2,616</td>
<td>4,682</td>
<td>5,613</td>
<td>6,425</td>
<td>7,617</td>
<td>8,000</td>
</tr>
<tr>
<td>Temporary employment created (in days)</td>
<td>9,357</td>
<td>11,804</td>
<td>12,825</td>
<td>13,428</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lease credits made (in million BGN)</td>
<td>0,557</td>
<td>1,15</td>
<td>1,45</td>
<td>1,89</td>
<td>2,21</td>
<td>3</td>
<td>3,8</td>
</tr>
<tr>
<td>Information centers (clients attended)</td>
<td>-</td>
<td>6,965</td>
<td>18,125</td>
<td>33,124</td>
<td>49,752</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Clients trained</td>
<td>1,100</td>
<td>2,882</td>
<td>3,685</td>
<td>4,565</td>
<td>7,665</td>
<td>8,746</td>
<td>9,300</td>
</tr>
<tr>
<td>Consultant services rendered (number of companies)</td>
<td>2,100</td>
<td>4,529</td>
<td>6,227</td>
<td>7,755</td>
<td>9,646</td>
<td>11,107</td>
<td>12,000</td>
</tr>
<tr>
<td>Marketing and production groups formed</td>
<td>19</td>
<td>43</td>
<td>50</td>
<td>53</td>
<td>62</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Business incubator - Ruse

Since the beginning of 1997 as a result of recommendations of foreign consultants and thanks to the financial support of the PHARE Programme one of the first business incubators in the country was set up in Ruse. Its start-up and management is performed by the Business Center for Support of Small and Medium-sized Enterprises (BCSSME). The opportunities provided by the incubator to its users are: providing offices, consultancy and training, micro-crediting and access to information resources. For the five years since its establishment the incubator has supported 14 companies, which ensure jobs to 90 employees. For the same period there are 4 companies which have left the structure of the BI successfully. The incubator was closed in September 2002 by a decision of the management board. The reasons for its closing are technical (the need to empty the premises rented by the BCSSME), combined with the need to shift efforts to Business Incubator II which provides a wider range of services to incubated companies.

BI II started as an idea in September 1998 and was implemented again with foreign support (Austria). The official accommodation of companies started in mid-2000. The new services provided to incubated companies include lease, working capital credits, guarantees to companies from the incubator. For the purposes of BI II Ruse Municipality provided gratuitously a built-up area of 2,690 m² for a period of 10 years. Besides the additional services provided by BI II the philosophy on the stay of companies in the incubator is changed. Unlike the standard conditions in such organizations, the incubated companies in BI II are no longer forced to leave the incubator unless they themselves prefer to move their activity to another place. In the initial recruitment of companies to be included in BI II 42 companies applied of which 28 were selected thus starting the operation of the incubator. At March 2004 only one company has left successfully the incubator, 15 companies still operate in BI II and the rest have left and discontinued their business. Currently operating companies have created 92 jobs and 8 new jobs are to be created by mid-2004. The organizers state as the main reason for the companies’ unsuccessful leaving the incubator entrepreneurs’ incapacity to run their own business and the inability to cope with the challenges of a newly starting up enterprise.

Along with the development of BI II the BCSSME in Ruse started a Virtual Incubator (incubator without walls) and Business Incubator Junior (jointly with Ruse University). Creation of BI III is planned but the only progress made so far is the building provided by Ruse Municipality. No funds have been found for the overhaul and renovation of the building.

It is true that implementation of the activity of BCSSME in respect of business incubation would not be possible without the support of foreign donors. Participation of the state (in the person of Ruse Municipality) in this case is restricted to provision of buildings that unfortunately need serious reconstruction and repair to be able to fulfill the objectives of a business incubator. Although BI II is an example of a successful implementation of a project, BI activity (BI II) still cannot be assessed in terms of the incubation results achieved as the period is too short (the two incubators have existed for less than 5 years). At the same time, the decision on unlimited stay of the companies in the incubator distorts the normal logic of BI (support of start-up companies) and suggests insufficient interest from the companies to participate in the new structure (otherwise the idea for removal of the limited period of stay could not be implemented).

### High-tech business incubator - Gabrovo

In 2000 an initiative was started in Gabrovo for building the first narrowly specialized BI focused on developing the potential for design of high technologies. Selection of the high-tech sector as BI base is preconditioned by the existing definite advantages of the region in this area – Gabrovo Technical University (and the natural result from that – young specialists with good qualification) as well as a number of actively operating regional IT companies. Besides the standard services provided by most incubators the high-tech BI offers training and consulting to the specialists from the newly established IT companies and possibilities for increasing the export of software products developed in the region. In addition to the construction of a physical BI the organizers of the structure started so-called
virtual BI (VBI) which uses similar schemes in support of the start-up software business with several main differences – incubated companies do not occupy premises of the incubator, work is carried out not only with companies but also with informal teams and individual specialists.

The virtual incubator works for the high-tech development of the region, providing the following services:
- marketing (cooperation in products sale, search for suitable orders, markets);
- production (efficient organization of the production process);
- training (enhancing the competitiveness of the teams);
- building of a research and development center to the Higher Technological Institute (jointly with Gabrovo TU).

At the end of 2003 the VBI in Gabrovo is still at the design stage of development. An Internet portal has been created for the customers of VBI but its activity is low and the number of visits small.

**Business incubator – Veliko Tarnovo**

At the end of 2001 the Municipal Council of Veliko Tarnovo also decided to support the establishment of a High-Tech Business Incubator in the municipality and provided an administrative and production building for gratuitous use. However, good intentions are not enough for successful fulfillment of the undertaking. Currently the main problem to the high-tech business incubator is the shortage of funds consistent with the lack of joint venture capital in Bulgaria.

The above two examples (and a lot more outside the scope of this review due to insignificance of the initiatives) suggest that without support from foreign projects and programmes creation of BIs in Bulgaria is largely doomed to failure. Then logically comes the question of why it is difficult to carry out incubation activity for start-up companies in Bulgaria even when there are available opportunities to ensure foreign finance (e.g. PHARE Programme). Part of the problems in the administration of such programmes are due to delay by the Bulgarian government which, being unable to support business development with internal funds, does not make enough efforts to utilize the international funds and know-how offered.

Examples in support of the above statement are not few. In 2000 a PHARE project was launched, “Investment in business incubators in underdeveloped regions”. The original idea is to set up seven BIs in economically deteriorating regions in North West and South Central Regions. The aim of establishing BIs is to support under specific conditions start-up entrepreneurs and some existing small enterprises whose low competitiveness is due to inadequate business premises. Every business incubator is to provide up to 15 production/office premises with an area of 50 to 250 sq.m., a hall for meetings and business consultations, a place for office equipment to be used by the tenants, and a possibility to use business services at preferential prices.

Project finance amounts to EUR 3 million under the PHARE Programme and EUR 750,000 from the state budget. Subsequently (two years later) it was decided to have six BIs in the following cities - Vratsa, Belogradchik, Montana, Mezdra, Kardjali and Madan. At the end of 2003 tenders were announced for supply of equipment and furniture for the six BIs. At the beginning of 2004 work on the project stopped again without clarity on the reasons for the stoppage.

In 2001 another PHARE project was launched, “High-tech Business Incubators”. The primary goal of the project is to set up six business incubators to support entrepreneurs operating in the area of high technology. The total budget of the project is EUR 10.45 million and over half of it (EUR 5.6 million) is provided from PHARE and only EUR 1.85 million are funds extended from the state budget. The other funds (EUR 3 million) will be provided by the private sector. Due to different reasons implementation of the project stopped several times, which delays work and creates uncertainty about the future results. It is expected from the six incubators to provide premises to 120-150 small enterprises and working space for about 400 persons.

In 2003, after a serious delay (in fault of the Bulgarian side) work on the project resumed and in July the specific conditions of financing companies under the project were announced – grants to a company of up to EUR 50,000 and co-financing by the receivers is 50%. At the end of 2003 49 grant contracts were concluded under the project and the part on setting up six business incubators was dropped for unknown reasons.

**Problems related to setting up and operation of BIs:**

Although setting up of business incubators is included in every programme of state and municipal administrations, little is done in practice to support newly established enterprises under this scheme. Obviously, including the task in the general programme is more or less an expression of attitude rather than a real objective to be achieved.

Of note are the continuous problems accompanying the development of the two PHARE projects related to business incubation. Besides delays, stoppage due to abuse and subsequently forcing the procedures within shortest periods, the implementation of the projects is inhibited by the difficulty in finding information about the stage of their implementation. Official websites of responsible ministries do not publish updated information and direct contact confirms once again the lack of coordination between individual institutions and dilution of responsibility in searching for the reasons for the problems.
Establishment of business incubators at the initiative of representatives from a specific business or region is not common practice and this confirms the lack of knowledge of the nature of such type of organizations.

This becomes clear from the results from surveys of the private sector\[\text{footnote}30\], conducted by the Center for Economic Development, where representatives of the small and medium-sized business share their opinion on business incubators. Many of the entrepreneurs participating in the surveys do not know the essence, intended use and functions of the business incubator. Although the concept is not unfamiliar to most people, the majority of businessmen are not aware of the true meaning of this phrase. The most probable reason for this situation is the limited number of business incubators and the lack of popularity in the business community.

From the comments made it is evident that entrepreneurs cannot define precisely the role and functions of a business incubator. They perceive the idea of the existence of such organizations rather negatively and skeptically. Only after explanation of the goals and advantages of business incubators, most of the respondents in the survey share the opinion that they present a good opportunity for development of Bulgarian entrepreneurship.

To achieve better results from the operation of business incubators it is necessary to clarify the essence of these organizations to Bulgarian entrepreneurs, which would be helpful in general to many people who want to start up their own business.

Maintenance of contacts with leading universities is of key importance to business incubators as graduating students have great potential as users of this service and it is important for them to be familiar with the opportunities provided.

Although the government declares full support to the establishment of business incubators, it should be more proactive and take the necessary steps to accelerate work on the projects in this area in order to achieve quick results and improve the environment for operation of small and medium-sized enterprises.

2. Use of information and telecommunication technologies

2.1. Advantages of information and telecommunication technologies for SME development

Modern information and telecommunication technologies are becoming gradually an integral part of people’s daily life both in personal aspect and in the work process. To various degrees ICT have an impact on every sector of the economy, be it production or services. At the same time their continuous depreciation makes them more accessible to SMEs thus reflecting on the work process of these companies.

In view of the importance of Internet it would be more appropriate to review changes related to its use separately from the other ICT. Over the last ten years Internet development has been one of the most frequently discussed issues in the economic press and research. At present, when big bankruptcies consistent with the crisis in Internet companies in 1999 are already history, the possibilities provided by the web are more clearly defined and better accepted by business communities globally.

Table 23. Change in SME operation through Internet use

<table>
<thead>
<tr>
<th>Activity</th>
<th>Without using Internet</th>
<th>Extended possibilities thanks to Internet</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search and finding technical and other information, new clients, suppliers, products and services.</td>
<td>Use of business directories, library resources, the printing press.</td>
<td>Use of specialized search machines in the web. Study of sites with appropriate contents. Participation and maintenance of forum groups (virtual societies) in the specific area.</td>
<td>Times faster finding accurate and updated results.</td>
</tr>
<tr>
<td>Knowledge of competition.</td>
<td>Visiting trade fairs, keeping track of specialized publications.</td>
<td>Consider Internet presentation of competitors. Use of online resources offered to potential clients.</td>
<td>Expanding the vision on a global scale, much easier acquaintance with trends in the industry.</td>
</tr>
<tr>
<td>Informing current and potential clients.</td>
<td>A limited number of receivers of information and restricted access (due to physical limitations) of those who want to receive it.</td>
<td>Publishing large volumes of information against minimum costs, maximally facilitated communication with clients (e-mail).</td>
<td>Immediate response to inquiries and remarks, reaching a huge number of potential clients, real possibility to enter foreign markets.</td>
</tr>
<tr>
<td>Receiving feedback from distributors and clients</td>
<td>Usually on paper, delayed in time.</td>
<td>Electronic carrier, without delay in time and in any format.</td>
<td>Possibility to maintain database, facilitating to a great extent the preparation of statements, analytical surveys and determining trends.</td>
</tr>
<tr>
<td>Extension of working hours for potential clients</td>
<td>Limited possibility for contacting clients and making transactions</td>
<td>Possibility for communication at any time at minimum price and 24-hour working stores.</td>
<td>Almost permanent connection with clients.</td>
</tr>
</tbody>
</table>

\[\text{footnote}30\] Within the framework Bulgaria Enterprise Policy Performance Assessment, OECD and EBRD, December 2002
The benefits from using Internet in the company have many aspects. Nevertheless they can be summarized in several major factors which every entrepreneur or manager of SME should know. Table 23 shows the benefits from including Internet in the operation of SMEs from a comparative point of view.

Information about the scale of Internet and information technologies spread among Bulgarian enterprises is comparatively scarce at present. Below are presented several surveys of different sociological agencies which give an idea of the present state of penetration of the web in Bulgarian business.

Study of the operations of 2,250 enterprises from the real sector\(^57\) shows that only a small part of the companies perceive Internet as a serious and important source of information. To the question of their sources of information about markets only 11.5% have stated they use the web (by comparison, 35% use own marketing research for this purpose and 24% communicate with partners).

Bulgarian enterprises are not well acquainted with the opportunities provided by Internet for business development. This is confirmed by the fact that the World Wide Web is used most massively for communication: 27% of the polled companies state they use e-mail. Less than 13% of the companies have advertised via Internet and approximately 19% have obtained information about deliveries and sales.

One of the positive tendencies evident from the results of the survey is emergence of the first signs of using Internet for management of financial and inventory flows. Approximately 7% of the companies have stated they use some kind of electronic banking and about 0.6% make e-commerce, defined as a full process of electronic purchase-sale and payment.

A similar survey conducted by the agency “Estat”\(^58\) by order of CED among an audience of about 350 companies shows similar results. Little less than half of polled companies use Internet in their work (51%), the main reasons for not using the web being the shortage of funds and the opinion that Internet cannot improve the processes in the company.

Of note is the fact that the majority of users still use dial-up access (via telephone line): 33.3%. According to the survey, little over 82% of the companies with access to Internet use it as e-mail, about 72% search and receive information related to the company’s business, 9.4% use electronic banking and only 4.7% use e-commerce.

Although Internet is instrumental to many of the innovations in the business processes over the recent years, nonetheless important for facilitating and improving the work of enterprises is the development of information and communication technologies as a whole. This involves the possibilities provided by the use of computers, ever more complex software programmes, automation of processes, emergence of mobile communications, etc.

The most widespread and popular example of using IT in SMEs in Bulgaria is the accounting software introduced by most of the companies. It saves costs and facilitates the work of the accounting department and auditors. One obvious advantage of this software consistent with the widespread use of this type of software is the fact that it is developed by local companies which contributes to the comparatively low price for implementation, comparable to the actual turnovers of Bulgarian SMEs, on the one hand. On the other hand, this software is in full conformity with the specifics of Bulgarian legislation and Bulgarian language, which makes it more attractive than foreign analogues.

Another IT product of extreme value to most Bulgarian enterprises are legal reference books and database. Over recent years the idea of ordinary collection of legislative acts has evolved and at present most of these programmes provide additional information: database of the Official Gazette, legal practice, translation of laws, template contracts, forms, procedures, etc. Programmes are updated through the Internet which facilitates users immensely and speeds up the updating process.

In addition to the above possibilities there are also several other services which are provided via the Internet as a channel for transfer of information. This involves the increasingly used Internet banking (provided by some banks in Bulgaria) and VoIP (transfer of voice via Internet – most big Internet providers provide VoIP).

E-banking has all the advantages offered by the web – 24-hour and 7-day a week access to banking services, regardless of the place or the country in which the user is. In general, banks in Bulgaria provide the following:

- receipt of statements of bank accounts;
- transactions from bank accounts (opening and closing of accounts, transfer, cash collection requests, purchase and sale of currency, etc);
- receipt of financial information;
- receipt of personal information;
- requests for services (e.g. credit, etc.).

E-banking saves not only time but also costs to every employer or manager of a company. Therefore most corporate clients of the banks perceive it very well, and its spread is comparatively easy, combined with the extended scope of services provided via Internet.

VoIP is a service which allows making long-distance and international calls at much lower prices than normal telephone

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\(^{57}\) Survey completed in March 2002.

\(^{58}\) Survey conducted in September 2002.
services. VoIP has been used for a long period of time in many developed countries in the world and has proved its profitability potential, as its perceived very well by users. Recently use of VoIP has become a business model for some entrepreneurs who started providing the VoIP service themselves after the monopoly of BTC was lifted in the beginning of 2003.

Development and introduction of electronic signatures (at the end of 2003 there are two licensed providers of certification services) and E-government (the strategy was adopted by the Council of Ministers at the end of 2002 and the plan for its implementation was presented in the beginning of 2004) are also a serious incentive for those who have not decided yet to use computers and Internet in their work. Communication with public administration takes considerable time of every entrepreneur in Bulgaria and use of these modern achievements could facilitate business development to a large extent.

2.2. Importance of SMEs in the sector of information and communication technologies

High-tech industry can be defined in several different ways depending on the authors and the purposes for which the definition will be used. In general the idea is to distinguish those activities that come to the fore in terms of technologies used (both as products and as processes of handling and services), i.e. “high technologies are a process which involves very high percentage of intellectual activity, very low material intensity and last but not least, most advanced achievements in the field of science and technology”. It is true, however, that with the advance of technologies the industries included in this definition may undergo changes.

In statistical terms the above definitions mean that in assessing the high-tech industry the following activities should be taken into account: production of office equipment, computers, radio, TV and communication equipment, medical, precise and optic devices and instruments. High-tech services include: posts and telecommunications, activities in computer technologies, research and development, and trade in machinery and equipment.

In view of the importance of high-tech SMEs for the economy on the one hand, and the impact of the high-tech sector on SMEs as a whole, and taking into account the actual share of different components in the high-tech production in Bulgaria, for the purposes of this report the following activities can be distinguished: telecommunications, activities in computer technologies, wholesale trade in machinery and equipment and their spare parts.

Despite the difficulties experienced by the Bulgarian economy in the recent years, the ICT sector managed to preserve comparatively good indicators of development and slowly but consistently the competitiveness of the constituent companies has increased. Given the great impact and interrelatedness between information technologies and every sector of the economy not only in Bulgaria but worldwide, the condition of local enterprises engaged in developing new and improving existing information and communication technologies is of key significance.

It is common fact that ICT make any kind of production more efficient and improve competitiveness of its products. In the conditions of global competition, use of information technologies along the whole value added chain is a mandatory condition for success on both domestic and international markets. ICT is of fundamental importance for building a knowledge-based economy, and for boosting the development of activities with a high value added level generated as a result of creation and management of knowledge and specific skills.

Traditionally information on the state of ICT sector is provided by IDG-Bulgaria and CBN, an agency for sociological studies and forecasts in the field of IT. Data from their studies are shown in the two tables below.

Table 24. ICT market in Bulgaria, 2001-2003, (million EUR )

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servers</td>
<td>21</td>
<td>28</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>PCs</td>
<td>54</td>
<td>61</td>
<td>66</td>
<td>71</td>
</tr>
<tr>
<td>Office equipment</td>
<td>18</td>
<td>19</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Communication equipment for end users (mobiles, etc.)</td>
<td>50</td>
<td>66</td>
<td>68</td>
<td>70</td>
</tr>
<tr>
<td>Network equipment</td>
<td>168</td>
<td>269</td>
<td>321</td>
<td>335</td>
</tr>
<tr>
<td>Software</td>
<td>25</td>
<td>28</td>
<td>33</td>
<td>39</td>
</tr>
<tr>
<td>IT services</td>
<td>36</td>
<td>39</td>
<td>43</td>
<td>50</td>
</tr>
<tr>
<td>Total IT</td>
<td>214</td>
<td>244</td>
<td>271</td>
<td>298</td>
</tr>
<tr>
<td>Total telecommunications</td>
<td>841</td>
<td>1056</td>
<td>1207</td>
<td>1301</td>
</tr>
<tr>
<td>Total ICT</td>
<td>1055</td>
<td>1300</td>
<td>1478</td>
<td>1599</td>
</tr>
<tr>
<td>Growth, %</td>
<td>+23.2</td>
<td>+13.7</td>
<td>+15.0</td>
<td>+11.0</td>
</tr>
</tbody>
</table>


Table 25. IT business in Bulgaria (including only Top 250 IT companies)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, total (000 USD)</td>
<td>204 231</td>
<td>272 390</td>
<td>313 348</td>
<td>391 685</td>
<td>415 200</td>
</tr>
<tr>
<td>Growth, %</td>
<td>+40.9</td>
<td>+33.4</td>
<td>+15.0</td>
<td>+25.0</td>
<td>+6.0</td>
</tr>
</tbody>
</table>


The figures in the two tables differ and this could be explained by the different methodologies used by the two companies as well as the sample of companies that have participated in their studies. At the same time, in both cases we have approximately identical figures for growth, which suggests that this is the real
picture of the ICT business in Bulgaria for the past several years.

It is important for the ICT industry, being part of the Bulgarian economy, to review changes in the structure of gross value added (GVA) and gross output (GO) at base prices. Data available are provided by NSI and show the change in values for the period 2000-2001.

### Table 26. Gross output (million BGN)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total for the economy (million BGN)</th>
<th>Total ICT (million BGN)</th>
<th>Activity under NCEA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>51.80</td>
<td>64.20</td>
<td>72</td>
</tr>
<tr>
<td>2000</td>
<td>54 418</td>
<td>1 819,8</td>
<td>268,0</td>
</tr>
<tr>
<td>2001</td>
<td>60 650</td>
<td>2 341,8</td>
<td>356,8</td>
</tr>
</tbody>
</table>

*NSI data processed by CED team.

The gross output of the ICT sector grew by nearly 30% for the period 2000-2001. The sub-sector “Telecommunications” has the largest share in gross output, accounting for 75.40% of the total amount in 2001. At the same time the share of sub-sector “Activities in Computer Technologies” in total GO remained almost unchanged (9.18% in 2000 and 9.36% in 2001).

In terms of total GO of the Bulgarian economy the ICT sector increased its share from 3.34 to 3.86% in the review period.

### Table 27. Gross value added (million BGN)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total for the economy (million BGN)</th>
<th>Total ICT (million BGN)</th>
<th>Activity under NCEA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>51.80</td>
<td>64.20</td>
<td>72</td>
</tr>
<tr>
<td>2000</td>
<td>23 696,7</td>
<td>853,9</td>
<td>75,8</td>
</tr>
<tr>
<td>2001</td>
<td>26 355,6</td>
<td>1206,2</td>
<td>112,2</td>
</tr>
</tbody>
</table>

* NSI data processed by CED team.

The situation with GVA in the ICT sector is identical, i.e. growth of 40% in the review period. Unlike GO however, the share of sub-sector “Activities in Computer Technologies” has increased by over 1 percentage point, i.e. from 5.57% to 6.61% of total GVA of the ICT sector. Compared to the GVA of the whole economy there is also a serious growth: from 0.2 to 0.3% of total GVA in the country. Hence the conclusion could be drawn of the increasing importance of this segment of ICT, which in the recent years is a symbol of the idea of making Bulgaria a key ICT center on the Balkans. Namely this sub-sector could ensure accelerated development of the other directions of the economy, providing products at competitive prices adapted to the Bulgarian conditions.

Naturally, as with GO, sub-sector “Telecommunications” has the largest share in GVA (over 84% in 2001), declining symbolically in the 2 years under review.

Data shown are telling of the increased contribution of the ICT industry for the development of the Bulgarian economy. Recognizing the sector as priority by the government will contribute even more for the reinforcement of this trend.

According to NSI information, at the end of 2002 some 4,377 companies in total operate in the ICT sector. Of this, 93% are SMEs (less than 100 employees). The bulk of them are newly established companies (started up in the last 10 years) but there are also such that have emerged as a result of the transformation of large technological companies which existed before 1989.

Over 2,300 of all enterprises are in the sub-sector “Activities in Computer Technologies”. Only seven of these do not belong to the category of SMEs, or 99.7% are small and medium-sized enterprises. With staff of up to ten employees (micro enterprises) are 92.36% of the companies dealing in computer technologies.

Almost all companies engaged in development of software and Internet solutions are included in the group of micro enterprises. This is one of the problems of this type of companies – in applying for large-scale international projects they cannot provide the required guarantee for owned resources (not only financial but human as well).

Of key significance for the future successful development of the ICT sector in Bulgaria is the “Strategy for Bulgaria’s Competitiveness on International ICT Markets”, prepared in 2003 and adopted by the Council for Economic Growth in February 2004. The Strategy is developed with the idea to outline the directions in which the business and the institutions of the Executive will assume their responsibilities for using the potential of this sector in the interest of the whole Bulgarian society. Maybe the most important thing in this case is the fact that the initiative for preparation of such documents comes from the business and this is one of the factors that could influence the successful implementation of the strategy in the near future.

One of the positive factors in Bulgaria, from which the managers of SMEs could benefit, is the great number of high-quality companies for software development in the country. For times lower prices than international ones any company may order the development of a personalized information system or product which, depending on the type of the enterprise, could contribute considerably to improve performance (by reducing production costs and facilitating or shortening the work process).

A problem for penetration of innovative products in SMEs is the extremely low level of costs for research in the country. In the recent years the share of these costs in GDP exhibited a constant decline: from 1.64% in 1992 to 0.47% in 2001 (Table 28). The other EU countries and candidate countries display.

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61 Received and analyzed by CED within the project “Statistical Database of Bulgarian ICT Industry” by order of the Agency for Communications and ICT Development.
a downward trend in the value of this indicator but it is not particularly pronounced. In most EU countries the period 2000-2001 was characterized by increased spending on research which unfortunately is not the case in Bulgaria.

Table 28. Research costs (in %)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (15 countries)</td>
<td>1.95</td>
<td>1.98</td>
<td>1.99</td>
<td></td>
</tr>
<tr>
<td>Accession countries</td>
<td>0.82</td>
<td>0.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>0.52</td>
<td>0.47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>2.70</td>
<td>2.72</td>
<td>2.64</td>
<td>2.59</td>
</tr>
<tr>
<td>Japan</td>
<td>2.99</td>
<td>3.07</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat (http://europa.eu.int/comm/eurostat/)

The largest costs were made by scientific organizations and specialized institutes in the public sector (66.23%), which definitely is not the best way of performing this activity in the conditions of market economy. Only 27.1% of research activity results from the efforts of commercial companies and from 1991 till 2001 this share was constantly declining. Definitely one of the challenges currently faced by Bulgaria is the pursuit of adequate policy of encouraging private enterprises to do research. Only then will it be possible to reverse negative trends and increase the innovation potential of the country.

2.3. The E-government and SMEs

The main goal of the E-government is to provide high-quality, economically efficient and easily accessible public administrative services to individuals and business entities.

The successful implementation of the E-government concept will cause a substantial decrease in costs, not only in financial terms but also in terms of time and efforts. This is particularly important to SMEs, for they cannot afford to constantly support personnel responsible for the relations with the public administration in the areas of social security, taxes and other activities. Electronic communication and optimization of management and business processes in public administration (as part of the E-government) will provide more favourable environment for the start-up businesses and entrepreneurs.

Last but not least, SME participation in the E-government’s activities will contribute to an incremental adoption of the new information and communication technologies and their widespread use in the operations of the enterprise thus increasing its competitive power.

The Electronic Government Strategy for Bulgaria determines a group of basic administrative services to be performed online initially – 12 for individuals and 8 for businesses. The eight business services include:

1. Social security contributions of employees.
2. Corporate taxes: declarations, notification.
4. Registration of a new company.
5. Sending data to the National Statistical Institute.
6. Customs declarations.
7. Permits related to environmental requirements (including reporting).
8. Public procurement.

To assess the level of performance of administrative services according to the Strategy, four possible stages of their providing have been determined:

1. Information: The institutions publish generally accessible information on the Internet.
2. One-way interaction: The institutions provide opportunity for downloading of documents (forms, applications, etc.) related to services.
3. Two-way interaction: Besides information and downloading of forms, the user can send electronic letters, forms, etc. to public institutions, but public administration is not obliged to respond in real time or by the same means.
4. Transaction: Individuals and companies communicate with public administration electronically and online. There is a mechanism to confirm the validity of the transaction.

Table 29 shows the performance level of the 8 priority services set in the E-government Strategy for Bulgaria.

Table 29. Level of providing the 8 priority services of the “Administration to Business” type

<table>
<thead>
<tr>
<th>Name</th>
<th>Institution</th>
<th>Current level of provision</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social security contributions of employees</td>
<td>National Social Security Institute</td>
<td>Two-way interaction</td>
<td>Providing information and contacts: System of data collection related to occupational and universal pension funds – provision of software to companies to encompass the data in declarations 1,3,4; download of declaration forms; Online registration of employment contracts; Reference to occupational and universal pension funds <a href="http://www.noi.bg/index_first.html">http://www.noi.bg/index_first.html</a> <a href="http://nssi.orbitel.bg/ppf/">http://nssi.orbitel.bg/ppf/</a></td>
</tr>
<tr>
<td>3. Value Added Tax: declarations, notification</td>
<td>General Tax Directorate</td>
<td>Information</td>
<td>Public bulletin of companies registered under the Value Added Tax Act. Every company can be searched in the register by its full name or part of it, by BULSTAT number or tax number; there is also a wap version <a href="http://www.taxadmin.govt.bg/registri/registri.htm">http://www.taxadmin.govt.bg/registri/registri.htm</a></td>
</tr>
</tbody>
</table>
At the end of 2003 there is no information on the Internet about the priority service Registration of a new company. This service is of great importance for promoting enterprise in the country and improving the business environment for both the Bulgarian and foreign entrepreneurs. The manner of performing the service is related to the anti-corruption actions taken by the government and its timely introduction would definitely affect in a positive direction the number of start-up enterprises and the environment for their initial performance.

In the context of the E-government it is worth noting the portal “Official pages of the Bulgarian institutions”63, maintained by the Information Technologies and Communications Directorate where the links to the websites of Bulgarian administrations are categorized and structured according to functionality. The portal serves as a single entry point by individuals, businesses and administrations to the services and information provided by the Bulgarian government.

In addition to the 8 priority business services, the Register of Administrative Structures and the Acts of the Executive64 provides accurate information and opportunity for downloading of forms on license and permit regimes and the structure of the public administration. This ensures improved business environment and greater transparency of the public administration.

A pilot project of the E-government started in September 2003. The electronic services provided refer to both individuals and businesses. The specific services are: change of address registration of individuals (temporary service that works only for a certain period); reference to the Delfi information system for information about court registration of all legal entities in Bulgaria; access to the database of the National Social Security Institute; and issue of statements about social security contributions paid by individuals and statement of social security contributions paid by employers.

Conclusions and recommendations

• Although Internet is no longer a novelty to most Bulgarian SMEs, different studies reveal that a relatively small number of them take advantage of the opportunities offered by the web for optimization of the processes. Another drawback that affects adversely the efficient use of Internet is the slow access to the web (dial-up).
• Information technologies are not sufficiently widespread among Bulgarian enterprises: mainly accounting programmes, legal reference books and databases are used. The reason is the shortage of financial resources and unfamiliarity with the real capacity of information technologies.
• A positive factor for Bulgarian managers and SME owners is the existence of a large number of high quality companies developing software and websites in the country, which can provide products and services of universal quality at relatively low prices.
• Many SME owners are inclined to think that the companies which offer modern ICT are just trying to sell their product without being convinced of the benefits from its usage. That is why independent organizations and associations can play an important role in changing the situation by providing more unbiased information and data about the real state of affairs and assist SMEs in their choice.

63 http://portal.government.bg
64 http://www1.government.bg/ias/index.html
cannot improve the operation of SME when its business is outside the technological sector.

- E-government in Bulgaria is no longer only ideas and wishful thinking but has become a reality to a great extent. Some of the planned services earmarked for business are half implemented and more attention should be paid to start-up businesses and potential entrepreneurs.

- To ensure better understanding and acceptance of ICT by the business and the success of the E-government it is necessary:
  - to organize and implement a programme for popularization and use of ICT and electronic administrative services by the business, explaining the advantages of using modern technologies for automation of the production processes of the enterprise;
  - by using the capacity of the E-government, to preserve and develop traditional channels for access to administrative services and to organize them on the one-stop shop service principle in order to preclude “technological separation” of different focus groups.
The macroeconomic conditions for improving competitiveness of Bulgarian enterprises presented in Chapter One, as well as the improving business environment in the period 2001-03 are certainly elements with strong influence on the intracompany factors for the development of Bulgarian small and medium-sized enterprises (SMEs). Nevertheless these elements alone cannot contribute for the growth of enterprises. Intracompany factors will become increasingly important for boosting economic growth.

Intracompany factors for SMEs include:
- Management and management strategies;
- Marketing and marketing strategies;
- Innovation policy of companies;
- Process organization;
- Human resources and human resource policy;
- Transaction policy of companies;
- Policy for integration to the Single European Market.

1. Sources for development of internal factors

There are many opportunities to improve the quality of these factors in Bulgaria. They can be classified into four groups depending on their institutional origin. First, the enterprises themselves are a source of improving the SME intracompany factors. There are processes during integration of the Bulgarian into the European economy, which cannot be provided with support and no one but the enterprises themselves can improve. The Government is a major economic policy subject and the enterprise policy it defines is one of its basic tools for improving company competitiveness. The Government influences indirectly the internal SME factors by improving the environment for a startup and development of enterprises. The start-up and development environment can be improved along several lines. The passed and implemented Amendments to the SME Act, the Act on Promotion of Investments in SMEs, the Act on Restriction of Administrative Regulation and Administrative Control of Economic Activity, the Act on Promotion of Scientific Research, as well as other regulations and administrative practices influencing the SME business, are factors for considerable improvement of the start-up and development environment. The non-government sector influences the business through different training programmes for start-up and experienced entrepreneurs, through a number of pro-business oriented projects and through policy proposals, which contribute for the development of specific intracompany factors. The academic society provides the scientific basis for enhancing the competitiveness of Bulgarian enterprises. It strives to show the short cut to the necessary positive change in the sources for development of the internal factors, which in turn influences the formation of the enterprises policy.

2. Analysis of the condition of intracompany factors

2.1. Management, marketing and innovation policy of SMEs

Business surveys show that a relatively high share of the Bulgarian SMEs outsources the management process: 39% of the companies outsource legal advice and 23.2% outsource the tax and social security issues. These data reveal that the Bulgarian SMEs are increasingly focusing on more professional forms of management. Based on these data an SME-generated growth in the business services sector can be expected. However, outsourcing is underused in an area where it is most necessary - human resource training – only 9.4% of the SMEs use outsourcing to recruit and train staff.

SMEs have marketing skills and apply these in management. They make efforts to know and satisfy customer needs, which is a very important factor for the success of the marketing strategies - 64.8% of the SMEs have information on how the customers accept their product; another 33.8% also have feedback, though partial, from their customers. Only 1.4% of the companies declare that they do not know the opinion of their customers about their product.

65 Institutional framework, regulatory framework, tax policy, facilitating the access to financing, providing special business services, developing business incubators, promoting the technological transfer in SME, the entrepreneurial spirit in the education system and the lifelong training, placing the policy for enterprises in line with the modern environmental trends which can also be a factor for improving the competitiveness of SMEs. For more information on these see OECD/Investment Compact. Bulgaria Enterprise Policy Assessment 2004, as well as Bulgaria Enterprise Policy Assessment 2002. http://www.investmentcompact.org

66 Special survey for preparation of the report – see details in the introduction.
The relatively positive data about the marketing of Bulgarian SMEs are completed by the fact that only 4.1% of the companies assess poor marketing as the most serious intracompany problem. That is probably due to the fact that Bulgarian companies do not attach much importance to external marketing advice: about one-tenth of the SMEs use external companies as an information source for their business, as providers of orders and customers, for advice on marketing, customs procedures and foreign trade regulations.

To have adequate marketing corresponding to the needs of their customers, companies need information about the markets on which they operate. Over half of the companies obtain market information from their partners (55.0%). Apart from the positive signal of this information, i.e. companies create partnerships resulting in additional benefits for them, there is also a negative element, because partners do not always provide comprehensive information about the market situation and are apt to distort information to their own benefit.

Own marketing research is companies’ second most used source of information - 42.5% have stated that they use this source of information about the markets on which they operate. This is a serious progress towards intracompany understanding that market success is based on reliable marketing information.

Internet is ranked third in the provision of information about customers and markets, but the potential of this cheapest information source remains underused: only 23.8% of the SMEs get the information they need via Internet.

The role of branch associations, government and municipal institutions in supporting companies with market information remains inefficient in terms of SMEs – only 12.0% of the SMEs make use of the services of their branch associations; the role of the State is even less efficient – only 8.8% of the SMEs make use of the information sources provided by the central and local administration.

A positive signal for the Bulgarian small and medium-sized companies in terms of their innovation policy is the fact that 88.8% of these companies state that they keep themselves updated with information about implemented production technologies. Companies get information mainly from special exhibitions in Bulgaria and abroad (45.9%), or from special magazines (41.0%), while the share of the companies using Internet to get this information is 34.7%. A positive trend is observed – SMEs are increasingly focusing on cheaper information sources like Internet, although they still use mainly traditional sources.67

The data reveal that Government’s enterprise policy needs substantial development in terms of supporting the business with information about advanced technologies. Only one of 10 companies (11.4%) uses government bodies and institutions to get information about new technologies, and 1 of 30 companies (3.5%) makes use of the special technology transfer centers. More technology transfer centers could be set up at municipal level within the new Entrepreneur’s Kiosks.

The inadequate quality of machines, technology and equipment is a very serious problem for every sixth Bulgarian SME (16% of the SMEs). In our opinion these data are undervalued, which means that the quality of production factors is lower than companies’ assessments. This is true because over half of the companies (or 52.8%) declare that they need additional investment financing.

Enterprises are not sufficiently active in terms of innovations – at this stage 61.6% do not intend to implement new technologies in their core production and only 15.3% intend to do that in 2004. 35.7% of the enterprises stating that the condition of their business is very good do not intend to implement new technologies, either. This may be due to the fact that they have already done it (which is in contrast to the data showing that 60% of these same enterprises need investment financing) or to the fact that one third of the SME sector “leaders” do not realize the relation between new technologies and the future success of their business. Nevertheless, 64.3% of the “leaders” intend to implement new technologies, but only 14.3% intend to do that in 2004. The other 50% postpone their investment intentions for the period after 1.1.2005. It is notable also that the worse the condition of companies’ business, the more delayed are their intentions to invest in new technologies:

Table 30. Share of enterprises, which at this stage do not intend to implement new technology in main production depending on the condition of their business

<table>
<thead>
<tr>
<th>Assessment of the condition of company’s business</th>
<th>Share of enterprises which at this stage do not intend to implement new technology in core production (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>35.7</td>
</tr>
<tr>
<td>More likely good</td>
<td>58.0</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>59.7</td>
</tr>
<tr>
<td>More likely bad</td>
<td>78.6</td>
</tr>
<tr>
<td>Very bad</td>
<td>66.7</td>
</tr>
</tbody>
</table>

Source: Estat

This confirms the validity of the “vicious circle of poverty” for Bulgarian SMEs – poverty generates poverty. Most of the companies with worse condition of their business obviously do not see a way out of their difficult situation.

2.2. Capital formation and productivity of labour

The formation of companies’ production capacity through investment in fixed assets (FTA) is important for companies’ production processes. The capital formation in small and medium-sized enterprises from various Bulgarian sectors and regions can be analyzed on the basis of several indicators: FTA

67 See details in Chapter Five.

REPORT BY THE AGENCY FOR SMALL AND MEDIUM-SIZED ENTERPRISES

83
per enterprise, gross investment in FTA per enterprise, FTA per employee and gross FTA per employee.

For a more profound analysis of production processes, these indicators need to be studied in two basic aspects: sector and regional.

**Sector differences in production factors**

Sector differences in SME’s capital formation are summarized in the following table:

Table 31. Gross investments in FTA per enterprise in the private sector, by sectors (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Employment</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>2001</td>
<td>2002</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>Total</td>
<td>3.9</td>
<td>5.2</td>
<td>67.3</td>
<td>85.7</td>
</tr>
<tr>
<td>Public</td>
<td>9.0</td>
<td>10.7</td>
<td>59.6</td>
<td>63.9</td>
</tr>
<tr>
<td>Private</td>
<td>3.9</td>
<td>5.2</td>
<td>67.7</td>
<td>86.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>9.1</td>
<td>14.8</td>
<td>147.2</td>
<td>68.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.0</td>
<td>6.2</td>
<td>43.3</td>
<td>63.5</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>104.1</td>
<td>206.4</td>
<td>163.9</td>
<td>68.3</td>
</tr>
<tr>
<td>Construction</td>
<td>12.4</td>
<td>14.7</td>
<td>117.2</td>
<td>226.7</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>2.5</td>
<td>3.4</td>
<td>81.0</td>
<td>90.3</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.9</td>
<td>4.7</td>
<td>88.3</td>
<td>90.3</td>
</tr>
<tr>
<td>Transport, storage and</td>
<td>5.0</td>
<td>6.0</td>
<td>161.4</td>
<td>90.3</td>
</tr>
<tr>
<td>communication</td>
<td></td>
<td></td>
<td>166.6</td>
<td>230.4</td>
</tr>
<tr>
<td>Real estate, renting and</td>
<td>9.9</td>
<td>12.4</td>
<td>57.1</td>
<td>106.0</td>
</tr>
<tr>
<td>business activities</td>
<td></td>
<td></td>
<td>106.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Source: NSI and own calculations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is notable that while the private sector registers growth for all size classes of enterprises, the public sector registered a decrease of investments in the size classes of enterprises with 10-49 employees and 50-99 employees, which are expected to be one of the basic generators of growth for the SME sector. Micro-enterprises accounted for the highest growth of gross investment in FTA in the private sector (33%); growth in the other size classes was 27.7%, 20.2% and 22.8% accordingly for one year.

The sectors Electricity, Gas and Water Supply; Hotels and Restaurants; Trade and Repair and Real Estate, Renting and Business Activities accounted for the highest growth of capital investments in micro-enterprises. The Real Estate, Renting and Business Activities sector accounted again for the highest growth in small enterprises with 10-49 employees; Manufacturing and Construction also contributed considerable growth. Notable for these companies is the avalanche growth of investments in the Electricity, Gas and Water Supply sector (almost 5 times). Manufacturing as well as Trade and Repair accounted for the highest growth in medium-sized enterprises with 50-99 employees (40.3% and 123% accordingly); however in this size class of enterprises three sectors – Construction, Hotels and Restaurants, and Transport, Storage and Communication – registered notable decreases; hence this size class of enterprises did not register higher overall growth. Enterprises with 100-249 employees registered decrease of total investments as a result of the sizable decrease of investments in two sectors: Hotels and Restaurants, as well as Transport, Storage and Communication. However growth in this size class was sufficient to register higher rates compared to the enterprises with 50-99 employees.

Table 32. Relative share of gross investment in FTA by sectors (Total sector=100)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>2001</td>
<td>2002</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>Total</td>
<td>13.5</td>
<td>15.8</td>
<td>15.7</td>
<td>20.7</td>
</tr>
<tr>
<td>Public</td>
<td>0.2</td>
<td>0.3</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Private</td>
<td>18.7</td>
<td>19.2</td>
<td>21.0</td>
<td>24.9</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1.0</td>
<td>1.6</td>
<td>8.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.1</td>
<td>5.9</td>
<td>12.2</td>
<td>16.7</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>13.0</td>
<td>15.1</td>
<td>5.7</td>
<td>38.2</td>
</tr>
<tr>
<td>Construction</td>
<td>29.1</td>
<td>18.7</td>
<td>18.5</td>
<td>30.4</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>31.9</td>
<td>30.3</td>
<td>41.1</td>
<td>37.2</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>12.7</td>
<td>24.4</td>
<td>18.7</td>
<td>25.6</td>
</tr>
<tr>
<td>Transport, storage and</td>
<td>12.1</td>
<td>13.4</td>
<td>18.8</td>
<td>20.2</td>
</tr>
<tr>
<td>communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate, renting and</td>
<td>66.4</td>
<td>58.9</td>
<td>22.6</td>
<td>33.0</td>
</tr>
<tr>
<td>business activities</td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Source: NSI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Micro-enterprises experienced the highest activity in terms of FTA investments in a couple of sectors: Real Estate, Trade and Tourism. In 2001 they accounted for 66.4% of investments in FTA in the Real Estate sector, with this share registering negligible decrease to 58.9% in 2002. Micro-enterprises also accounted for nearly 1/3 of the investments in the Trade and Repair sector and together with the small enterprises (10-49 employees) accounted for about 2/3 of investments in FTA for the two survey years. The change in the Manufacturing sector is interesting. During 2001-2002 the activity of micro-enterprises and small enterprises changed in reverse direction – while in 2001 micro-enterprises accounted for 1/3 of investments in FTA, in 2002 small enterprises (10-49 employees) occupied this role, accounting for 30.4% of total investments in FTA in the sector. The enterprises with 100-249 employees also
registered a considerable relative share in growth – in 2002 they accounted for 31.5% of investments in FTA, whereas a year earlier their share was only 12.6%. The aggregated data are presented in Table 32.

Micro-enterprises contributed most to the highest capital ratio in three sectors: Electricity, Gas and Water Supply; Real Estate, Renting and Business Services; Mining and Quarrying. The same conclusion is also valid for small enterprises (10-49 employees), however here Tourism has higher share – FTA per employee in this sector register increase of over 35% in 2002 reaching BGN 22 233 per employee. Thus the share of FTA per employee of the small enterprises in the sector increased by 75% against the average amount for the size class of enterprises with 10-49 employees. The difference between this size class and the medium-sized enterprises (100-249 employees) is even greater. In 2002 the share of FTA per employee in both groups registered an increase of 3.5 times against the average levels for the corresponding size classes of enterprises.

Data with absolute values of FTA in SMEs are presented in the following table:

<table>
<thead>
<tr>
<th>Employment</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>2001</td>
<td>2002</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>Total</td>
<td>11.7</td>
<td>14.4</td>
<td>213.8</td>
<td>255.9</td>
</tr>
<tr>
<td>Public</td>
<td>116.5</td>
<td>167.5</td>
<td>717.9</td>
<td>834.8</td>
</tr>
<tr>
<td>Private</td>
<td>11.5</td>
<td>14.1</td>
<td>210.1</td>
<td>245.3</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>31.1</td>
<td>44.5</td>
<td>586.4</td>
<td>514.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17.0</td>
<td>18.8</td>
<td>183.6</td>
<td>195.7</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>246.8</td>
<td>516.8</td>
<td>1579.2</td>
<td>2684.8</td>
</tr>
<tr>
<td>Construction</td>
<td>27.8</td>
<td>17.0</td>
<td>118.5</td>
<td>139.4</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>6.9</td>
<td>8.3</td>
<td>231.3</td>
<td>245.1</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>5.8</td>
<td>10.6</td>
<td>288.7</td>
<td>380.7</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>11.2</td>
<td>15.4</td>
<td>333.0</td>
<td>392.2</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>32.2</td>
<td>41.9</td>
<td>164.5</td>
<td>290.0</td>
</tr>
</tbody>
</table>

Source: NSI

The productivity of labour measured as the value added per employee is an important indicator about the condition of internal factors in Bulgarian SMEs. The Electricity, Gas and Water Supply sector accounted for the highest productivity in small enterprises (10-49 employees), which registered an increase of 3.5 times against the average level for this size class. This sector is notable for registering a productivity increase of over 2.8 times against the average level for the size class of enterprises. The sectors Construction; Real Estate and Transport, Storage and Communication ranked next. Notable is the negative productivity of the micro-enterprises in the Mining and Quarrying sector in the two survey years, which means higher intermediate consumption compared to the end-product; higher compensation of sector employees compared to their real output; or accumulated excess production capacity as a result of the higher capital formation in this sector. The data about productivity in SMEs are presented in the following table:

Table 34. Productivity of labour by sectors
(Value added per 1 employee, BGN, current prices)

<table>
<thead>
<tr>
<th>Employment</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>2001</td>
<td>2002</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>Total</td>
<td>2975</td>
<td>3172</td>
<td>5051</td>
<td>5431</td>
</tr>
<tr>
<td>Public</td>
<td>5230</td>
<td>4873</td>
<td>5512</td>
<td>4613</td>
</tr>
<tr>
<td>Private</td>
<td>2964</td>
<td>3166</td>
<td>5025</td>
<td>5289</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>-1271</td>
<td>-13462</td>
<td>-5762</td>
<td>7565</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3216</td>
<td>3635</td>
<td>3359</td>
<td>3810</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>4557</td>
<td>8965</td>
<td>22283</td>
<td>18658</td>
</tr>
<tr>
<td>Construction</td>
<td>4413</td>
<td>5442</td>
<td>3879</td>
<td>5106</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>2694</td>
<td>2771</td>
<td>7158</td>
<td>6682</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1616</td>
<td>1628</td>
<td>3205</td>
<td>3059</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>3677</td>
<td>3544</td>
<td>6716</td>
<td>7391</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>4556</td>
<td>5017</td>
<td>5485</td>
<td>6422</td>
</tr>
</tbody>
</table>

Source: NSI

The Electricity, Gas and Water Supply sector accounted for the highest productivity in small enterprises (10-49 employees), which registered an increase of 3.5 times against the average level for this size class. This sector is notable for registering higher productivity compared to the average level for all size classes of enterprises for the two survey periods. The Trade sector registered considerable increase in productivity for the enterprises with 100-249 employees. The average level of productivity in the micro-enterprises in the sector decreases compared to the average levels probably as a result of the strong competition and the sector specificity – it comprises mostly small family companies, which does not allow registering high value added in micro-enterprises. Yet for small and medium-sized enterprises the sector productivity increased about 1.26 - 2.02 times against the average levels for the corresponding size class of enterprises.
An interesting trend is observed in the Real Estate, Renting and Business Services sector. The bigger the company in this sector, the lower its productivity compared to the average level for the enterprises in this size class. While the micro-enterprises in the sector increased the value added per employee 1.5 times the average level for the size class, the productivity level in the enterprises with 100-249 employees was about 2/3 of the average level. A reverse trend is observed in the Hotels and Restaurants sector – the bigger the company with main business in this sector, the higher its productivity level compared to the average level for all enterprises in the corresponding size class. Another trend is also notable. While the productivity in the private sector remained at levels close to the average for all size classes, in the public sector the productivity levels varied considerably against the average productivity level depending on the size of the enterprises. These data are presented in greater detail in the following table:

Table 35. Relative productivity of labour by sectors (Size class for the corresponding year = 100)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Public</td>
<td>175.8</td>
<td>153.6</td>
<td>109.1</td>
<td>177.5</td>
</tr>
<tr>
<td>Private</td>
<td>99.6</td>
<td>99.8</td>
<td>99.5</td>
<td>97.4</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>-42.9</td>
<td>-425.2</td>
<td>-114.7</td>
<td>143.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>108.5</td>
<td>114.8</td>
<td>66.9</td>
<td>72.0</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>153.7</td>
<td>283.2</td>
<td>443.1</td>
<td>352.6</td>
</tr>
<tr>
<td>Construction</td>
<td>148.9</td>
<td>171.9</td>
<td>77.2</td>
<td>96.6</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>90.9</td>
<td>87.5</td>
<td>142.4</td>
<td>126.0</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>54.5</td>
<td>51.4</td>
<td>63.8</td>
<td>57.8</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>124.0</td>
<td>111.9</td>
<td>133.7</td>
<td>139.7</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>153.7</td>
<td>158.5</td>
<td>109.2</td>
<td>121.4</td>
</tr>
</tbody>
</table>

Source: NSI

Regional differences in production factors

Internal factors can also be analyzed in terms of regional differences. The classification by planning regions does not provide the most comprehensive picture of regional differences, yet some trends can be outlined.

Table 36. FTA per enterprise, by planning regions (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11.7</td>
<td>14.4</td>
<td>23.18</td>
<td>255.9</td>
</tr>
<tr>
<td>Public</td>
<td>116.5</td>
<td>167.5</td>
<td>717.9</td>
<td>634.8</td>
</tr>
<tr>
<td>Private</td>
<td>11.5</td>
<td>14.1</td>
<td>210.1</td>
<td>245.3</td>
</tr>
<tr>
<td>North-West</td>
<td>9.5</td>
<td>9.0</td>
<td>167.4</td>
<td>203.8</td>
</tr>
<tr>
<td>North Central</td>
<td>7.3</td>
<td>10.0</td>
<td>172.1</td>
<td>159.0</td>
</tr>
<tr>
<td>North-East</td>
<td>10.2</td>
<td>11.8</td>
<td>220.4</td>
<td>227.8</td>
</tr>
<tr>
<td>South-East</td>
<td>7.7</td>
<td>11.1</td>
<td>229.5</td>
<td>289.2</td>
</tr>
<tr>
<td>South Central</td>
<td>7.5</td>
<td>10.9</td>
<td>168.8</td>
<td>204.1</td>
</tr>
<tr>
<td>South-West</td>
<td>19.5</td>
<td>21.9</td>
<td>243.6</td>
<td>303.9</td>
</tr>
</tbody>
</table>

Source: NSI

The South-East region is the only one where micro companies register higher level of FTA compared to the average level for Bulgaria's economy. This fact is valid for both survey periods. The South-West region also registered the highest capital ratio compared to the other regions. It even registered levels of the FTA per enterprise indicator by 1.5-2 times higher compared to the most underdeveloped Bulgarian regions for all size classes of enterprises. Notable was the fact that the bigger the enterprises, the higher the number of enterprises in other regions which reach the level achieved in the South-East region. This trend was most pronounced in the North-East region where differences become negligible for the enterprises with 100-249 employees, whereas for micro-enterprises these differences are nearly two times.

A relation can be observed between the size class of enterprises and the number of planning regions where the level of FTA per enterprises was higher compared to the average level for Bulgaria's economy. While in terms of micro-enterprises only one region registered higher level of FTA per enterprise compared to the average level, in 2002 these regions were already two (South East and South West) for small enterprises (10-49 employees); three (the above two plus the North East) for medium-sized enterprises, and for enterprises with 100-249 employees only, the two central planning regions registered lower levels against the average for Bulgaria's economy.

In 2002 the rather underdeveloped North-West region registered a boom of investments in FTA in the enterprises with 100-249 employees. Hence it is included in the group of more developed regions in terms of size class of enterprises. While in 2001 the gross investments in FTA per enterprise in this region and in this size class amounted to BGN 189.8 thousand accounting for only 1/3 of the average level, in 2002 the enterprises (100-249 employees) registered BGN 353.5 thousand of investments in FTA, accounting for nearly ¾ of the average economic level for these enterprises. The enterprises with 100-249 employees in
the North-West region registered an increase of investments, whereas the three leading regions (South-West, South Central and North-East) registered a decrease of investments in FTA, resulting in total decrease of the average level for enterprises with 100-249 employees, which is also valid for the FTA per employee and relative gross investments in FTA indicators. This analysis is presented in the table below and in the additional tables in the annexes.

Table 37.  Gross investment in FTA per enterprise by planning regions (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Planning Region</th>
<th>Investment (thousand BGN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>9.0</td>
</tr>
<tr>
<td>Public</td>
<td>3.9</td>
</tr>
<tr>
<td>North-West</td>
<td>1.2</td>
</tr>
<tr>
<td>North-Central</td>
<td>2.1</td>
</tr>
<tr>
<td>North-East</td>
<td>3.3</td>
</tr>
<tr>
<td>South-East</td>
<td>2.1</td>
</tr>
<tr>
<td>South-Central</td>
<td>2.4</td>
</tr>
<tr>
<td>South-West</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Source: NSI

A comparison of the productivity of labour indicators reveals serious differences in the size classes of enterprises and in the different Bulgarian regions. The South-West region was the only one where productivity of labour registered growth for all size classes of enterprises in 2002; furthermore, this growth accounted for higher productivity in the region compared to the average level for the Bulgarian economy. Data about SME productivity is presented in the following table:

Table 38.  Productivity of labour by planning regions (Value added per 1 employee, BGN, current prices)

<table>
<thead>
<tr>
<th>Planning Region</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2975</td>
<td>3172</td>
<td>5051</td>
<td>5431</td>
</tr>
<tr>
<td>Public</td>
<td>5230</td>
<td>4873</td>
<td>5512</td>
<td>9641</td>
</tr>
<tr>
<td>Private</td>
<td>2964</td>
<td>3166</td>
<td>5025</td>
<td>5289</td>
</tr>
<tr>
<td>North-West</td>
<td>1772</td>
<td>1722</td>
<td>2798</td>
<td>2988</td>
</tr>
<tr>
<td>North-Central</td>
<td>2673</td>
<td>2781</td>
<td>3714</td>
<td>3846</td>
</tr>
<tr>
<td>North-East</td>
<td>2588</td>
<td>2837</td>
<td>4961</td>
<td>4840</td>
</tr>
<tr>
<td>South-East</td>
<td>2535</td>
<td>2426</td>
<td>4582</td>
<td>4425</td>
</tr>
<tr>
<td>South-Central</td>
<td>2581</td>
<td>2897</td>
<td>4352</td>
<td>4255</td>
</tr>
<tr>
<td>South-West</td>
<td>3710</td>
<td>4131</td>
<td>6225</td>
<td>7048</td>
</tr>
</tbody>
</table>

Source: NSI

The North Central region is the only one registering higher productivity for all size classes of enterprises, but below the average level for the country. Despite that, micro- and small enterprises in this region (10-49 employees), registered lower growth rates compared to the average economic productivity for the corresponding size classes of enterprises, which explains some decrease in the relative productivity of these enterprises in the North Central region, notwithstanding their growth. The relative productivity of SMEs is presented in the table below:

Table 39.  Relative productivity of labour by planning regions (Size class for the corresponding year = 100)

<table>
<thead>
<tr>
<th>Planning Region</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>175.8</td>
<td>153.6</td>
<td>109.1</td>
<td>177.5</td>
</tr>
<tr>
<td>Public</td>
<td>99.6</td>
<td>99.8</td>
<td>99.5</td>
<td>97.4</td>
</tr>
<tr>
<td>Private</td>
<td>59.8</td>
<td>54.4</td>
<td>55.7</td>
<td>56.5</td>
</tr>
<tr>
<td>North-West</td>
<td>90.2</td>
<td>87.8</td>
<td>73.9</td>
<td>72.7</td>
</tr>
<tr>
<td>North-Central</td>
<td>99.8</td>
<td>89.6</td>
<td>98.7</td>
<td>91.5</td>
</tr>
<tr>
<td>North-East</td>
<td>85.5</td>
<td>76.6</td>
<td>91.2</td>
<td>83.7</td>
</tr>
<tr>
<td>South-East</td>
<td>87.1</td>
<td>91.5</td>
<td>89.6</td>
<td>93.6</td>
</tr>
<tr>
<td>South-Central</td>
<td>125.2</td>
<td>130.5</td>
<td>123.9</td>
<td>133.3</td>
</tr>
</tbody>
</table>

Source: NSI

SMEs in the North-West planning region registered the lowest productivity levels. Micro- and small enterprises accounted for the lowest levels. Some growth is observed in 2002 in small enterprises and in the enterprises with 100-249 employees, but growth rates cannot compensate the lag against the average level. Nevertheless, a tendency towards making up for the productivity lag in bigger enterprises is observed, which means that economic policy measures should be focused on promoting the productivity of labour in micro-enterprises.

Medium-sized enterprises in the North-East region are characterized by higher productivity levels compared to the average, whereas micro- and small enterprises registered lower levels and decreasing productivity in absolute terms, which places these enterprises below the average levels for Bulgaria. In this region decreased productivity was also registered in enterprises with 100-249 employees, but their high starting base (the highest at national level for this group) predetermined preserved higher productivity levels compared to the average levels for Bulgaria.

Production processes can also be analyzed in terms of entrepreneurs’ assessments of the consumption of raw materials and energy at their enterprises. 20% of the Bulgarian SMEs considered the high consumption of the above production resources as the biggest problem for their enterprise. Entrepreneurs also stated as a serious problem the inadequate quality of machines, equipment and technology (14.0%). Along with that, the fact that the shortage of production factors in enterprises was regarded as a problem signals expectations for adequate demand of the higher future output. In other words, in a mid-term aspect (a period of 1-3 years) one can expect...
growth in the potential economic GDP as a result of optimized intracompany organization of production processes. Placing production processes in line with European requirements is another factor for increasing the potential of SMEs and of the whole economy.

It should be noted that almost 1/5 of the Bulgarian SMEs (18.8%) outsource some production phases, which provide an opportunity for forming economic clusters.

2.3. Human Resource Policy

The human resource policy in Bulgaria’s SMEs can be analyzed in sector and regional dimensions.

Two distinct trends are observed in the sector dimension: the average number of employees in micro-enterprises registers increased or preserved its level, whereas the average number of employees in small enterprises registered a decrease or remained at the 2001 levels, as shown in Table 40.

Table 40. Average employment per enterprise by sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-9 10-49 50-99 100-249</td>
</tr>
<tr>
<td>Total</td>
<td>2.0 2.1 19.7 19.5 69.2 69.6 152.6 153.0</td>
</tr>
<tr>
<td>Public</td>
<td>4.6 4.4 24.3 23.4 70.2 70.6 154.8 151.1</td>
</tr>
<tr>
<td>Private</td>
<td>2.0 2.1 19.5 19.4 69.1 69.5 152.3 153.2</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>3.4 3.4 23.0 22.8 74.2 72.5 147.8 -</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.7 2.9 21.2 21.1 69.8 70.5 153.9 155.3</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>2.6 3.1 18.6 18.6 64.3 58.0 122.0 -</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5 2.6 20.1 19.8 69.6 70.7 150.9 148.2</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>1.9 2.0 18.1 18.1 66.4 66.3 135.5 145.4</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>2.1 2.2 17.5 17.1 68.0 69.4 163.8 147.4</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>1.8 1.9 19.3 19.2 68.3 70.4 142.6 148.9</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>2.0 2.1 19.0 18.3 71.1 67.0 164.5 159.4</td>
</tr>
</tbody>
</table>

Source: NSI

In micro-enterprises, only the Trade and Transport sectors grow in employment, the growth however being not higher than the 2002 average employment level of 2.1 employees for micro-enterprises. In small enterprises, only the Construction and the Mining and Quarrying sectors registered a decrease of employment, which however did not result in a decrease of employment in these enterprises below the average national levels for these sectors. In all other sectors small companies registered a decrease of the human resource level which resulted in a decrease of employment in these enterprises below the average levels for Bulgaria’s small companies. As concerning small companies, no clear relation between employment and productivity of labour can be observed in the sectors. Decrease of employment resulted in increased productivity in the Transport and the Real Estate, Renting and Business Services sectors, but not in the Trade and the Hotels and Restaurants sectors. Such relation is not observed for the other size classes of enterprises in the different economic sectors.

Companies’ labour costs are an interesting element of the human resource policy. A pronounced upward trend in labour costs is observed in micro- and small enterprises in most sectors for 2002. Only Construction; Transport, as well as Electricity, Gas and Water Supply registered some decrease, which however does not result in decrease of the labour costs in these sectors to a point below the average levels for Bulgaria. Medium-sized enterprises in the Hotels and Restaurants sector registered more serious decreases in labour costs of about 27% in 2002. Given the need to improve the quality of service in this sector, decreased labour costs can not result in long-term sustainable growth in the demand of tourist services and in substantially higher level of satisfying the needs of hotel and restaurant customers. It is the enterprises with 100-249 employees in the Tourism sector that register the most significant decrease of labour costs in 2002. This fact is also confirmed by the following table:

Table 41. Labour costs per enterprise by sectors (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-9 10-49 50-99 100-249</td>
</tr>
<tr>
<td>Total</td>
<td>2.4 2.5 53.9 53.6 225.0 239.9 606.0 617.9</td>
</tr>
<tr>
<td>Public</td>
<td>23.2 23.1 112.8 112.2 327.0 355.7 582.7 746.1</td>
</tr>
<tr>
<td>Private</td>
<td>2.3 2.5 51.3 52.0 213.6 230.5 748.0 604.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>6.9 10.3 91.0 93.4 327.4 330.3 962.3 0.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.9 3.9 47.6 47.7 192.8 199.4 523.8 572.8</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>7.4 12.6 83.8 150.8 423.0 413.0 827.7 0.0</td>
</tr>
<tr>
<td>Construction</td>
<td>5.1 3.9 54.5 57.4 230.5 265.3 653.4 630.1</td>
</tr>
<tr>
<td>Trade and repair</td>
<td>1.9 2.1 49.6 50.0 242.8 258.4 698.0 707.9</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.5 1.7 30.3 30.4 161.3 175.0 783.1 572.9</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>1.9 2.2 56.7 56.4 235.9 294.7 589.6 657.1</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>3.6 3.9 75.6 79.2 270.5 318.0 689.3 627.9</td>
</tr>
</tbody>
</table>

Source: NSI
As for the regional differences in the policy for promotion of human resource development in SMEs, the following conclusion can be made: the South-East region registered higher average employment and labour costs per enterprise compared to the other planning regions. Differences are more pronounced in micro- and small enterprises and reveal a downward trend in the bigger size classes. This is indicative of a strong potential, especially in the South-West region, to build competitive labour force at micro-level. The good practices of these policies at micro-level in the South-West region can serve as a basis for transfer of human resource management strategies to the enterprises in the other planning regions. More detailed data about this aspect of the analysis is presented in the annexes.

Training and qualification are important aspects of SMEs’ human resource policy. Eight per cent of the Bulgarian enterprises do not regard the low quality of the labour force as a serious problem. Despite this small percentage, over 2/3 of the SMEs state that they organize training for their employees (67.1%). Prevailing training trends include computer literacy and training in the currently employed production technology. Despite that, computer and production technology training is popular among not more than ¼ of the Bulgarian companies.

Efforts of enterprises to form well working teams capable of improving their teamwork can be given positive assessment. On the other hand, language training is ranked at the bottom in improving their teamwork can be given positive assessment.

Table 42. Areas in which training for employees is offered Share (%)

<table>
<thead>
<tr>
<th>Areas in which training of employees is offered</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer skills</td>
<td>25,3</td>
</tr>
<tr>
<td>Currently implemented production technologies</td>
<td>25,1</td>
</tr>
<tr>
<td>Improving team communication</td>
<td>21,2</td>
</tr>
<tr>
<td>Quality management</td>
<td>16,0</td>
</tr>
<tr>
<td>Advanced technologies</td>
<td>15,3</td>
</tr>
<tr>
<td>Managerial skills</td>
<td>11,2</td>
</tr>
<tr>
<td>Language skills</td>
<td>9,6</td>
</tr>
<tr>
<td>Other</td>
<td>8,0</td>
</tr>
<tr>
<td>Training not offered</td>
<td>32,9</td>
</tr>
</tbody>
</table>

Source: Estat

### 2.4. Transaction policy

The transaction policy of companies reflects their attitude to deals (both before and during the deal) and to the control over contract enforcement. Transaction costs and transaction control costs, as well as companies’ efforts to lower these costs, are the basic parameters here. Regarding the ex-ante costs\(^\text{65}\) of transactions in Bulgaria, there are many opportunities for their decrease: Internet is a fast-growing source of information to SMEs about markets and customers. However, the global network could hardly be of much help in ex-post costs\(^\text{66}\). The work of Government institutions and the changes in the regulatory environment towards facilitated control of the transactions executed in the country have key role in respect to these costs. The different proposals for introducing the arbitration principle in inter-company litigation (if adopted) could result in positive changes. Lower ex-post transaction costs of companies result in higher amount of resources for investment and for improving company competitiveness. The role of this factor is currently underestimated. Too much focus is placed on fiscal incentives at the expense of institutional ones (improving the business environment) for enhancing the investment activity in Bulgaria.

Data about the liabilities of SMEs towards subjects like associated enterprises, budget and social security authorities, business partners, own employees, can be used as an analytical tool in studying the outcome of the economic transactions concluded by SMEs. The data about short-term and long-term liabilities towards associated enterprises in the tables below are of special importance for the study of companies’ transaction policy:

Table 43. Long-term liabilities of SMEs towards associated enterprises (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>344,942</td>
<td>525,618</td>
<td>265,772</td>
<td>281,157</td>
</tr>
<tr>
<td>Public</td>
<td>-</td>
<td>18</td>
<td>454</td>
<td>639</td>
</tr>
<tr>
<td>Private</td>
<td>-</td>
<td>525,600</td>
<td>265,318</td>
<td>380,518</td>
</tr>
</tbody>
</table>

Source: NSI

Table 44. Short-term liabilities of SMEs towards associated enterprises (thousand BGN, current prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>377,701</td>
<td>420,419</td>
<td>323,170</td>
<td>277,955</td>
</tr>
<tr>
<td>Public</td>
<td>-</td>
<td>78</td>
<td>5,375</td>
<td>2,398</td>
</tr>
<tr>
<td>Private</td>
<td>-</td>
<td>377,623</td>
<td>420,029</td>
<td>317,795</td>
</tr>
</tbody>
</table>

Source: NSI

In 2001 long-term liabilities of SMEs towards associated enterprises amounted to BGN 946,362 thousand, and short-term liabilities amounted to BGN 2,069,138 thousand. Total 2001 liabilities towards associated enterprises amounted to BGN 3,015,500 thousand, accounting for 10.15% of GDP. The upward trend in the liabilities towards associated enterprises

\(^{65}\) Ex-ante costs – costs before and during closing up a deal – a.n.

\(^{66}\) Costs after deal is closed – a.n.
is preserved in 2002. Long-term liabilities amounted to BGN 1,391,159 thousand, with an annual increase of 47%. For the same period short-term liabilities amounted to BGN 2,115,783 thousand in absolute terms, registering an increase of only 2.3%. In 2002 aggregate liabilities of SMEs towards associated enterprises amounted to BGN 3,506,942 thousand, accounting for 10.84% of GDP.

Micro-enterprises accounted for the highest share in the increase of long-term liabilities – their liabilities registered an increase of BGN 180,676 thousand. This increase accounted for 40.6% of total increase of long-term liabilities in the SME sector towards associated enterprises in 2002. Small enterprises accounted for 25.9% of the increase. This calls for the conclusion that micro- and small enterprises account for 2/3 of the increase in sector’s liabilities towards associated enterprises.

For the same period short-term liabilities of micro-enterprises have registered higher growth rates against total short-term liabilities, because the decrease in the short-term liabilities of medium-sized enterprises (50-99 employees) determines the lower growth rates of total short-term liabilities. In 2002 liabilities per micro-enterprise towards associated enterprises amounted to an average of BGN 5012. Given the other indicators in the sector, this amount is a barrier to the accelerated growth in this sector.

The other types of liabilities presented in the table below are also indicative of the way in which companies manage their liabilities and comply with the contracts they have signed:

Table 45. Short-term liabilities of SMEs (thousand BGN, current prices)

| Liabilities on/towards: | Employment | |
|-------------------------|------------|
|                         | 1-9        | 10-49 | 50-99 | 100-249 |
| Commercial loans:       | 130,271    | 223,018 | 985,599 | 134,421 | 37,131 | 50,438 | 35,198 | 66,074 |
| Public                  | 467        | 477    | 1,114   | -     | 338    | 537    | 587    | -     |
| Private                 | 12,980     | 22,254 | 97,445  | -     | 38,793 | 49,901 | 34,611 | -     |
| Budget:                 | 189,948    | 229,790 | 142,607 | 146,359 | 102,685 | 126,701 | 265,561 | 287,161 |
| Public                  | 492        | 478    | 1,212   | 1,647  | 1,2263  | 1,3344  | 7,793   | 34,910 |
| Private                 | 18,502     | 22,968 | 130,482 | 135,884 | 90,422  | 116,437 | 187,698 | 252,271 |
| Social security:        | 38,938     | 50,974 | 47,225  | 59,907  | 48,532  | 77,084  | 160,014 | 147,425 |
| Public                  | 1,843      | 2,501  | 6,504   | 4,781   | 7,990   | 27,745  | 51,427  | 13,187 |
| Private                 | 37,095     | 46,473 | 40,721  | 54,226  | 40,542  | 50,059  | 106,587 | 134,238 |
| Own staff:              | 5,648      | 6,686  | 8,526   | 9,962   | 6,9913  | 89,931  | 216,592 | 180,074 |
| Public                  | 2,347      | 2,429  | 11,807  | 8,911   | 10,995  | 15,278  | 84,165  | 15,499 |
| Private                 | 5,4136     | 6,445  | 7,345   | 6,977   | 5,8958  | 7,4653  | 13,3887 | 16,5215 |

Source: NSI

Increase in both short-term and long-term liabilities of companies can be interpreted as impeded compliance with contracts in the reviewed period. This is true not only for the loans granted to SMEs by their business partners. Impeded compliance with obligations and contracts is also observed in terms of the budget, the social security and companies’ own staff.

Most significant is the growth in commercial loans to companies (100-249) - 87.7% for a single year. Micro-enterprises also accounted for a notable growth in commercial loans – their liabilities towards business partners registered an increase of 71.2%. Liabilities of small and medium-sized enterprises (50-99) increased by more than 35%, which also signals lack of improvement in their transaction policy. This indicates lower capacity of SMEs to release more resources for investment purposes and an increase in the liabilities of SMEs and impeded compliance with contracts.

Notable is also the increase in the liabilities towards companies’ own staff. These liabilities do not result from current or future transactions, but their higher levels indicate informal borrowing from companies’ own staff for the purposes of serving other transactions and contracts. This phenomenon can be given negative assessment because it results in generally lower motivation and productivity of labour and generally higher labour dissatisfaction in SMEs. Enterprises (100-249 employees) with liabilities above BGN 180 m in 2002 registered the highest level of borrowing in absolute value terms. Despite the large volume of these liabilities, notable is the fact that this group is among the few registering decrease compared to 2001. Decrease amounts to 17.3% and is generated in full by the public sector. The only other group of liabilities registering decrease in 2002 is that of liabilities towards the social security, which decreased by 7.8% (generated again by the public sector) and referred again to companies with 100-249 employees. The decrease in the liabilities of public sector SMEs towards the budget, the social security and the companies’ own staff can be explained by the stronger budget constraints in the enterprises. This can result in improved condition of some enterprises in the public sector, which would make them more attractive in a future privatization process.

Unlike the positive trends observed in the public sector and despite the changes in the social security contributions in 2002 that largely facilitate employers, no size class of enterprises in the private sector registered a decrease in 2002 short-term liabilities. This is true for liabilities towards the social security as well as for liabilities towards the other institutional subjects in the survey.

The general conclusion is that micro- and small enterprises are a major generator of the higher liabilities of the sector towards associated economic agents, business partners, the budget, the social security and the own staff. Despite the upward trend in companies’ FTA, the increase in liabilities indicates lower capacity of SMEs to generate higher investment potential by releasing additional funds for positive return activities and not for burdensome servicing of transactions and compliance with contracts. This conclusion determines the need of facilitated bankruptcy
procedures for enterprises, which would redirect the funds of SMEs to investments and growth and not to liability covering.

2.5. Policy for integration in the Single European Market

The attitude of companies towards the opportunities of EU accession are the following: are they sufficiently prepared to comply with accession requirements; do they have in place strategies tailored to withstand the competitive pressure of European companies; do they intend to implement ISO standards prior to EU accession; are they provided with support to adapt to European market requirements – all these are important issues having effect on the development of companies. The analysis of the policy of Bulgarian SMEs for integration in the Common European Market generally follows the preparedness of Bulgarian companies to make the necessary changes in intracompany development factors, which would accelerate their integration to the Single European Market.

Over 45% of Bulgarian enterprises have not taken any steps to prepare for accession to the single market, which is another example of the short term vision of managers. A negligible portion of SMEs have developed cost estimates of the compliance with European market requirements (5.8%). The lack of adequate information at government level is also a problem – the government administration does not provide sufficient information about the opportunities and obligations resulting from the accession.

A summary of the steps taken by companies to get better prepared for the accession of Bulgaria’s economy to the European market is presented in the following table:

Table 46. Steps taken by companies in relation to the preparation for accession to the EU

<table>
<thead>
<tr>
<th>Actions taken</th>
<th>Share of enterprises (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the quality control of products</td>
<td>26.9</td>
</tr>
<tr>
<td>Staff training</td>
<td>21.7</td>
</tr>
<tr>
<td>Improving the technology equipment</td>
<td>16.8</td>
</tr>
<tr>
<td>Establishing relations with strategic partners</td>
<td>15.4</td>
</tr>
<tr>
<td>Investments in advanced technologies</td>
<td>14.3</td>
</tr>
<tr>
<td>Obtaining ISO certificates</td>
<td>11.2</td>
</tr>
<tr>
<td>Complying with environmental requirements for products and manufacturing</td>
<td>9.3</td>
</tr>
<tr>
<td>Compliance with technical requirements for products and manufacturing</td>
<td>7.5</td>
</tr>
<tr>
<td>Estimation of compliance costs with the Common Market requirements</td>
<td>5.8</td>
</tr>
<tr>
<td>Training of managers</td>
<td>5.6</td>
</tr>
<tr>
<td>Protection of intellectual property</td>
<td>3.7</td>
</tr>
<tr>
<td>Protection of industrial property</td>
<td>1.4</td>
</tr>
<tr>
<td>Preparation not started</td>
<td>45.1</td>
</tr>
</tbody>
</table>

Source: Estat

Business surveys reveal that the worse the condition of enterprises, the lower the percentage of companies which have started preparation. Obviously survival strategies remain dominant for enterprises. On the other hand, the better the condition of enterprises, the higher the awareness of the need of government support for implementation of international quality standards which would considerably improve companies’ competitiveness on the European markets. 28.6% of the SMEs in very good business condition assess the absence of such support as a major barrier to the implementation of these standards. These enterprises rely on quality and not on price as their competitive advantage on the single market (50% and 7% accordingly), which is in line with the high requirements of this market and of the sophisticated demand. Obviously capacities to expand the export potential of the economy and to create competitive clusters in the Bulgarian economy should be sought in these enterprises. The worse the condition of a company, the more price is regarded as competitive advantage on the European markets. Yet price competition would be more appropriate as a strategy for a regional market of Southeast Europe than for the exacting demand on the European market.

Negative is also the fact that 2/3 of the companies, which have not started preparing for accession to the EU, are not interested at all in target programmes and projects of the administration for support of the business. In other words, about 30% of all Bulgarian small and medium-sized enterprises have not placed on their agenda the issues of Bulgaria’s accession to the EU and of the expansion of their business.

Nevertheless, most companies are well aware of the problems they will encounter in the process of accession and make efforts to solve them. Several trends are outlined in terms of the preparation for accession: the SMEs, which state as their most serious problems the poor organization of the marketing and production process, register higher aptitude to make efforts to get ISO certified against other companies (38.9% and 37.5% of all companies where this type of problems is dominant, accordingly). The companies where the major problem is the poor quality of the labour force are leaders in personnel training (45.7% of these companies organize such training); the companies which have problems with the high consumption of raw materials and energy, prefer to improve the quality control of products (37.9%); and companies improving quality control are leaders in the quality management training provided to employees (49.3%).

The SMEs that provide training for their managers are leaders in the implementation of international quality standards - 25.0% of these companies have already introduced these standards. Obviously these two measures are related and the training programmes for managers help the companies in improving their competitiveness. The relation between training for managers and target programmes of the central and local administrations is even more pronounced: 39.1% of the companies organizing
training for managers and 40.0% of those which have made EU market compliance costs estimates have been involved in target programmes for business support at central or local level and give positive assessment of their participation.

The data presented in the table below can be employed to analyze the potential of SMEs to withstand the competitive pressure on the single market:

Table 47. Relative share of SMEs in Bulgaria's exports in terms of value, (%)

<table>
<thead>
<tr>
<th>Groups of countries:</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-9</td>
</tr>
<tr>
<td>----------------------</td>
<td>------------</td>
</tr>
<tr>
<td>EU</td>
<td>53.5</td>
</tr>
<tr>
<td>-Germany</td>
<td>8.8</td>
</tr>
<tr>
<td>-Greece</td>
<td>11.4</td>
</tr>
<tr>
<td>-Italy</td>
<td>11.2</td>
</tr>
<tr>
<td>EFTA</td>
<td>0.5</td>
</tr>
<tr>
<td>CEFTA</td>
<td>4.6</td>
</tr>
<tr>
<td>Other from OECD**</td>
<td>4.8</td>
</tr>
<tr>
<td>-Turkey</td>
<td>4.0</td>
</tr>
<tr>
<td>Balkan countries***</td>
<td>10.6</td>
</tr>
<tr>
<td>CIS</td>
<td>7.3</td>
</tr>
<tr>
<td>Russia</td>
<td>1.9</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1.6</td>
</tr>
<tr>
<td>Other countries</td>
<td>18.8</td>
</tr>
<tr>
<td>-Arab countries**</td>
<td>6.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

* Australia, Canada, New Zealand, Turkey, and Japan  
** Albania, Bosnia and Herzegovina, Macedonia, Croatia, Serbia and Montenegro  
*** Algeria, Egypt, Libya, Morocco, Tunisia, Syria, Lebanon, Jordan, Kuwait, Saudi Arabia, United Arab Emirates

A lot of conclusions about the current condition of the internal factors for development of SMEs can be made:

- Managers do not acknowledge that company management is a serious problem for them and most of them have not realized yet that they could improve the quality of their management through different training courses for managers.
- Bulgarian SMEs know and make use of marketing skills; nearly 2/3 of the enterprises have comprehensive information about customers’ attitude to their product (service).
- Entrepreneurs in the Bulgarian small and medium-sized business still build their business partnerships on the basis of information from their own circle of contacts and not on the basis of objective market information.
- Less than ¼ of SMEs use Internet as a source of information for their business; despite that Internet is improving its rating as a source of information about the technologies implemented in SMEs, which will have positive effect on the business in a mid-term aspect (1-3 years).
- SMEs needing information about markets and potential customers use branch organizations and government institutions as sources of such information rather as an exception.
- The high consumption of prime and raw materials is a serious problem for them and most of them have not realized yet that they could improve the quality of their management through different training courses for managers.
- Despite that, Bulgaria has potential to set up competitive clusters because about 20% of the enterprises are outsourcing some production process phases.
- SMEs needing information about markets and potential customers use branch organizations and government institutions as sources of such information rather than an exception.
- The SME-generated export potential of the Bulgarian economy remains weak because these enterprises fail to find enough niches on international markets.
- Human resource training is quite popular as a method of improving the competitiveness of SMEs – over 2/3 of the enterprises employ this method.
- Language training is ranked at the bottom of the areas in which companies organize training; this creates a risk of marginalizing Bulgarian SMEs on the Common European Market.
- A contradiction in the assessments of the business about the quality of own production factors and the needs of investment financing is observed; either the high need of...
internal factors for SME development

As of the date on which the report was finally completed Entrepreneur’s Kiosks have been set up or their setting up is has been progress in 13 of the 28 Bulgarian regions. Entrepreneur’s Kiosks are operational in 15 municipalities, opening of six kiosks is pending in another 4 municipalities; 23 municipalities are now adapting the Entrepreneur’s Information Kiosk product. (http://www.asme.bg/bg/proc/kiosk/guide/default.htm), another 8 municipalities have stated their interest in signing agreements for setting up of Entrepreneur’s Kiosks in all municipal administrations except regional centers where the offices of the Agency for Promotion of Entrepreneurship (ASME) will also serve as Entrepreneur’s Kiosks.11

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Recommendations for improving the government enterprise policy for development of internal factors:

To encourage the more efficient development of intra-company factors, the Government needs to:

- Focus on non-fiscal investment promotion methods, which should lower the transaction costs of business.
- Popularize among all stakeholders (business organizations, NGOs and universities) the operational offices for “one-stop shop” service of entrepreneurs and complete the set up of Entrepreneur’s Kiosks in all municipal administrations except regional centers where the offices of the Agency for Promotion of Entrepreneurship (ASME) will also serve as Entrepreneur’s Kiosks.
- Improve quality of information support for the business with a view to cut down the costs of implementing and complying with European legislation; this means that every local office of the future Agency for Promotion of Entrepreneurship (APE) should have Entrepreneur’s Kiosk to provide entrepreneurs with information about the registration process and issuance of licenses and permits, as well as with other information for development of their business in accordance with ASME’s Business

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Improvement is overestimated or the low quality of production factors is underestimated, and the second statement is probably closer to the real situation.

- A direct relation between the condition of the business and the investment intentions is observed – SME sector leaders are more inclined to implement new technologies in core production.
- Most Bulgarian managers remain shortsighted and enterprises fail to assess EU membership as a powerful catalyst of positive changes at intra-company level; nearly half of all SMEs have not started at all any preparation for accession to the EU.
- The effect of the EU accession process on their own business is not on the agenda for about 30% of Bulgarian SMEs managers.
- The government information policy has not been focused yet on the EU accession related needs of the business, which is a major reason why nearly half of the Bulgarian small and medium-sized business has not started yet to prepare for accession to the single market.
- Despite some weaknesses, government programmes for support of the business are given positive assessment and yield positive results to the SMEs: they improve managers’ qualification, quality control and, generally, the preparedness of the business to implement the Common Market principles.
- Enterprises still rely mainly on price competition for competitive advantages on the European markets, but this strategy satisfies the low-profit segments of the European market, hence its potential for development of the Bulgarian SME sector is lower compared to product quality based competition.

Policy development proposals can be grouped according to the sources for development of intra-company factors, based on the problems outlined in the preceding paragraph.

Policy proposals to SMEs for improving the quality of internal factors:

The following measures for improving the competitiveness of the SME sector should be implemented:

SMEs should:

- Improve their awareness about the opportunities for participation in business support programmes of the government and the non-government sector.
- Make fair assessment of their own weaknesses and needs of improving the management processes in the company.
- Be more active in referring to their branch association for information about potential markets and new technologies in the sector.
- Look for new business contact opportunities beyond their own circle of partners, which would help to accelerate the development of competition in the SME sector.
- Make wider use of Internet, looking for markets and information about new technologies in the first place.
- Study any opportunity to reduce the resource-intensiveness of their production processes because it constitutes a major problem.
- Enhance computer and language training of their employees.
- Focus their competitive strategies on quality improvement if they want to export their products to the European market.
- Make use of investment financing to improve the quality of their machines, technology and equipment, because they are now underestimating the problem of the quality of their production factors.
- Estimate the compliance costs they would incur in withstanding the competitive pressure of market forces in the EU and implement step by step the product quality and health and safety standards, as well as product eco-compliance standards.
- Be interested in the requirements for their sector resulting from the future EU membership and require this information from government bodies and their sector organization.
- Shift from “survival strategies” to “business development strategies”, which would place on the agenda their participation in the Common European Market.

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Advisor: the functions of the entrepreneur’s kiosks should also include dissemination of information about the opportunities and requirements of EU accession.

- Improve awareness of the business about the benefits of technology transfer and the ways of using the technology transfer centers; more specifically this means setting up technology transfer offices within the regional units of the Agency for Promotion of Entrepreneurship with the task to provide SMEs with information of where to buy new technologies for their business.
- Identify the emerging or already established industrial clusters in the economy; for example the regional units of the future APE should make analyses for certain level of concentration of companies with associated business in one or several neighbor municipalities, which is indicative of emerging clusters in the region.
- Implement proactive enterprise policy measures to promote export-oriented productions based on the competitive advantages of enterprises and to support the setting up of export-oriented clusters in the economy.
- Implement facilitated bankruptcy procedures for enterprises, which would redirect the resources of SMEs from service of liabilities to increased investments and growth.

Recommendations to the non-government sector:

The non-government sector should:

- Enhance the practical aspect of the information support for the business: branch associations should be a major source of information about the opportunities for sale of SME’s products on the local and international markets.
- Work with local administrations on partnership principle.
- Stop using different forms of lobbyism and pressure which have adverse effect on the general competitive environment.
- In sectors with several sector organizations the latter should join their efforts and resources aiming at generating benefits from certain economies of scale, which will allow them to:
  - be more effective in protecting interests of their members;
  - provide an increasing variety of high quality services in a larger number of Bulgarian regions;
  - provide information about business standards and potential markets at lower cost; and
  - claim rights for registration and licensing of new sector members, which could not be achieved provided the current lack of representation is extended.
- Enhance its analytical capacity towards measures to increase exports generated by the SME sector.

Recommendations to the academic society for development of intracompany factors:

- Local universities (or university branches) should offer to the business and the public administration European economic integration courses with focus on the European integration requirements to the business and on the utilization of finance from the pre-accession and structural funds.
- The university branches in the country should consult their curriculums in accordance to the needs of the local business, which requires some decentralization of curriculums.
- Offer various entrepreneurship courses at all levels of the education system.
- Expand research on European market requirements, of SME’s capacity to comply with these requirements and of the competitiveness of Bulgarian companies.

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The analysis made in the report proves that in recent years small and medium-sized enterprises are becoming increasingly important for the economy. These enterprises are a source of accelerated economic growth. The value added generated by these enterprises registers higher growth rates compared to the value added of all enterprises in the non-financial sector and to the total value added in the economy. In 2002 employment in the economy registered net increase of 0.8% compared to 2001, whereas SME employment increased by 7.1% compared to 2001. SME output per employee registered higher growth compared to total growth of economic output. The share of SMEs in total foreign trade enterprises has also increased.

In recent years government support for SME sector development was enhanced owing to the capacity of SMEs to generate employment and the higher flexibility and adaptability of these companies. This support is manifested in the National Strategy for Promotion of SME Development in Bulgaria, 2002-2006 with an Action Plan to it; in Bulgaria’s accession to the EU Multi-annual Programme for Development of Enterprises and Entrepreneurship (2001 – 2005), and to the European Charter for Small Enterprises.

A number of legislative changes were prepared with the objective to improve the environment for SME development. A draft law on investment promotion in small and medium-sized enterprises was introduced in the National Assembly; draft Amendments to the SME Act were prepared in order to fully harmonize the Bulgarian definition of “micro-“ ”small“ and “medium-sized“ enterprises with the European definition. Very important are the draft Amendments to the SME Act, renamed to Act on Promotion of Entrepreneurship, which were adopted by the Government. Amendments to the SME Act are expected to clearly divide the role and functions of individual government bodies in terms of formulation, coordination, control and implementation of the government policy for promotion of entrepreneurship, which is a precondition for improved efficiency of these bodies.

The Agency for Small and Medium-sized Enterprises gets more actively involved in the information supply process by organizing seminars and public discussions on SME problems.

A number of measures for improving the business environment in which SMEs operate have been implemented in recent years, such as: reducing the number of licensing and permit regimes; improving public procurement procedures; encouraging fair market competition; and improving bankruptcy procedures. Efforts have been made to improve the efficiency of the judicial system and of anti-corruption measures. Despite that, entrepreneurs share the opinion that notable improvement of the business environment has not been achieved. Future government priorities should include again administrative, regulatory and statutory measures to improve the business climate.

SME sector’s sustainability is directly dependent on the access of SMEs to finance. The quick and easy access to finance is an important characteristic of the environment for development of SMEs and of the SME policy. Despite the positive changes, SMEs still suffer from shortage of funds; interest and collateral on bank loans are still considered a barrier. At the same time, banks’ interest in financing SMEs has increased in recent years and is expected to persist. Given the traditions and the structure of the Bulgarian financial system, the sources of financing alternative to bank loans remain insufficiently known or relatively inaccessible to SMEs. In this respect the fact that leasing is quickly establishing itself as a form of SME financing is positive. The capacity of the government support for the access of SMEs to finance through different guarantee schemes or co-financing remains underutilized. Promotion activities and the improved administrative capacity for utilizing funds from international SME financing programmes have great potential. Many financing programmes of this type are in operation in Bulgaria, but they should not be regarded as a sustainable private sector financing alternative like in a well-developed market economy.

CONCLUSION

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The quick access to information, the use of advanced technologies and the development of innovation potential are decisive for SME sector’s competitiveness. Business incubators provide good opportunities in this respect. To enhance the effect of their operation, there is a need to explain to entrepreneurs the nature of these organizations, which would be very useful for people who want to start up their own business. Relations with leading Bulgarian universities are very important for the business incubators.

Information technologies are not sufficiently popular in Bulgarian enterprises. This is a result of the shortage of financial resources and the insufficient knowledge of the real opportunities of these technologies. For most of the Bulgarian SMEs Internet is not a novelty, but few of them make use of the advantages the global network offers in terms of process optimization.

Bulgaria is developing e-Government, which accelerates and optimizes the services provided to business and people. Some of the planned services for business have already been halfway implemented.

To ensure better understanding and acceptance of ICT by business and to guarantee the success of the e-Government, there is a need to organize and implement programmes promoting the use of ICT and electronic administrative services and to explain the benefits of employing advanced technologies to optimize company processes.

The growth of Bulgaria’s SME sector is largely determined by the quality of intracompany factors. These include: management and management strategies; marketing and marketing strategies; process organization; human resources and human resource policy; innovation and transaction policy; and policy for integration in the Single European Market. To improve the SME sector’s competitiveness, the enterprises in the sector should make efforts to: improve their awareness of the opportunities to get involved in business support programmes organized by the Government and the non-government sector; make wider use of branch associations as sources of information for potential markets and new technologies; make wider use of Internet in their business; implement adequate human resource policy – computer and language training of employees; shift the focus of competitive strategies towards higher quality; and focus on targeted preparation for the Common European Market.

These measures will contribute for more dynamic development of the Bulgarian SME sector and for enhancing its role in Bulgaria’s economy.